

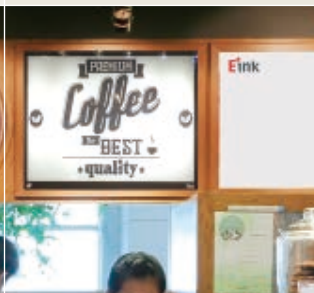
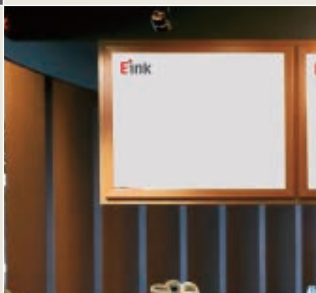
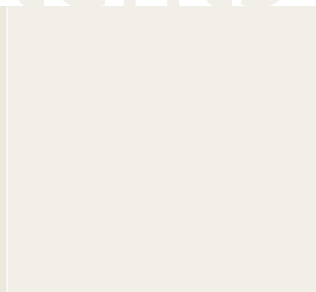
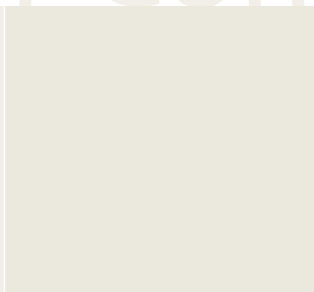
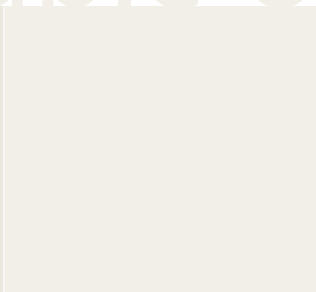
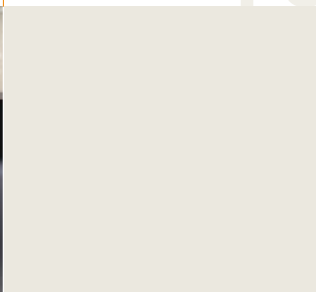
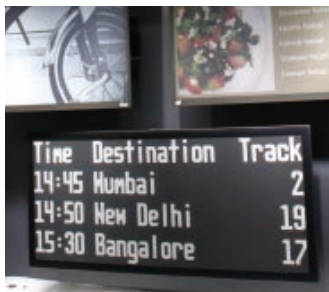
■ E INK HOLDINGS INC. 2014 Annual Report



## CONTENTS

|    |                                   |
|----|-----------------------------------|
| 01 | Company Milestones                |
| 02 | Letter To The Shareholders        |
| 06 | Financial Highlights              |
| 12 | Company Introduction              |
| 13 | Affiliate and Subsidiaries        |
| 14 | Company Organization              |
| 18 | Review of Operations              |
| 28 | Financial Statements              |
| 38 | Consolidated Financial Statements |

# Table of Contents



#### ■ SPOKEPERSON / DEPUTY SPOKEPERSON

Lloyd Chen / Deputy Chief Financial Officer  
(Finance Center)  
T. 886 3 5643200 lloyd.chen@eink.com

#### ■ OFFICE / FACTORY

E INK HOLDINGS INC.  
3, Li-Hsin Road One, HsinChu Science Park, HsinChu, Taiwan 300, R.O.C.  
T. 886 3 5643200 F. 886 3 5788339  
<http://www.einkgroup.com>

#### ■ STOCK LISTING

The company's common stock is list on the Taiwan's Gretai Securities Market : 8069  
Common Share Transfer Agent & Registrar: SinoPac Securities  
3F, 17 Po Ai Rd., Taipei, Taiwan, R.O.C.  
T. 886 2 2381-6288 <http://www.sinotrade.com.tw>

#### ■ INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

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

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

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

# COMPANY MILESTONES

Date of Establishment : June 16th, 1992

## Milestones in the Company's History:

- Sept 2000 Monthly production capacity reached 18,000 substrates
- Oct 2000 Securities & Futures Information Center issued authorization for public offering
- Sept 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
- Sept 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 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 at Linkou, to integrate production capacity in Taiwan and to improve assets utilization.
- May 2013 E Ink Holdings won the Best in Show award for 2013 from the Society of Information Display (SID) of the United States.
- May 2013 E Ink Spectra released. Spectra is the world's only electronic paper display capable of displaying three colors of red, black, and white.
- June 2013 E Ink Triton, the all-functional color EPD, received the 16th Outstanding Optical Electronic Product Award from the Photonics Industry and Technology Development Association (PIDA).
- Nov 2013 Our company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with Innolux Corporation.
- April 2014 Our company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with BOE Technology Group Co., Ltd.
- Jun 2014 The E Ink Spectra three-pigment EPD won the 17<sup>th</sup> Outstanding Optoelectronic Product Award from the Photonics Industry & Technology Development Association (PIDA).
- Dec 2014 Won the SEMI Standards Contribution Award from SEMI Taiwan.
- Jan 2015 Launched the world's first programmable color and pattern EPD technology: E Ink Prism.



# Letter to Shareholders

# Letter to Shareholders



## Dear Shareholders,

The outlines for the 2014 business report of E Ink Holdings Inc., as well as operation highlights in 2015 are as below.

### 2014 Business Report

For E Ink, 2014 was a year of continuing challenges and a transition during which the Company completed its adjustment in the management corporate structure to better align with the markets we do business in and set the foundation for longer term growth by diverting more resources to new markets. Despite the fact that the new management team has made the efforts and hard work, we have been unable to make rewarding accomplishments for the year. In 2014, E Ink had a combined revenue of NT\$ 14.6 billion, a gross profit of NT\$ 1.57 billion with a gross profit margin at 11% and a net income after tax of NT\$ 13 million. The earnings per share (EPS) for 2014 are NT\$ 0.01.

The EPD business continues to be a difficult manufacturing and production environment due to market demand and our customers' repeated requests for new product capabilities and designs. Despite these challenges, the hard work of our staff continued to push up the overall shipment of eReader displays. We continued to see new product announcements from all of our major eReader customers. As reported last year, the electronic shelf label (ESL) business continues to grow. ESL using E Ink EPDs are being deployed in Europe, Asia and the United States. Thanks to the number of existing engagements and evaluations, we expect to see continued growth in 2015. Beyond these more established markets, during 2014 we adoption of EPDs in mobile phones, wearable devices and health and fitness products. These applications will bring increased business to the company as these markets continue to grow and mature.

For the LCD market, E Ink has chosen not to directly engage in the highly competitive, price cutting LCD business for the consumer market. We continue to focus on niche markets that have special needs, as well as by licensing Fringe Field Switching (FFS) technology.

We have completed the organizational reengineering plan in 2014. The establishment of functional organizations and business units is complete and our global operations are fully integrated enabling E Ink to better serve existing customers and focus on developing new businesses, with an ultimate goal of a diversified portfolio in the EPD market.

With the introduction of a number of new E Ink products, 2014 was the year where these products were adopted by our customers for their end products. E Ink Carta has been adopted by the major eReader suppliers and continues to see significant demand. E Ink Spectra and Aurora have been adopted by our leading ESL partners as part of their products and will be seeing deployment in 2015. E Ink Mobius has been adopted by our leading mobile and wearable product customers and will be seeing a significant growth in 2015.

### Operation Highlights in 2015

With the increasing popularity of EPD in various applications such as ESL, mobile phones, smart watches and electronic signage, together with a comprehensive eco-system we have created with our business partners, and driven by the growth of eReader devices in Europe, Japan and other emerging markets, we are convinced the EPD markets will continue to grow in 2015. To achieve our performance objectives, we will implement the following operation strategies in 2015:

(1) Strengthen the integration of production and R&D to decrease the defect rate

With the spirit of “developing forward-looking technologies”, E Ink continues our quest and R&D efforts for critical technologies in EPD. We have had breakthroughs in areas such as front light, touch, flexible and color EPD, which have been introduced for various market applications. As the product applications continue to diversify, our clients have more diversified product designs and specifications requirements, which translates into more challenges in our production. In response, E Ink will strive to strengthen our organizational integration through organizational reengineering and bring the manufacturing and R&D units closer to each other so as to overcome the difficulties we may encounter in the production process, effectively reduce the defect rate in a meaningful sense, and meet the client’s products requirements.

(2) Optimize environmental, manufacturing process and improve labor force efficiency

E Ink continues to optimize our manufacturing process and the environment of our factory campus, while working hard to improve our labor efficiency. Starting in 2013 we have significantly committed to the optimization and automation of our production lines to improve product quality, shorten manufacturing time, and cut down the labor force required per unit output. Meanwhile, we are taking various measures to improve the working environment and quality of life to strengthen our employees’ loyalty to the Company. We have seen encouraging results and this endeavor will continue this year.

(3) Revitalize idle assets

For those production lines that need operational efficiency and idle assets, E Ink has adopted a number of projects to reduce the operational burdens and enhance efficiency. We are looking for making major accomplishments in 2015.

(4) Actively establish the EPD ecosystem

While striving to develop EPD, E Ink is also working hard to form a strategic alliance with suppliers in the upstream, downstream and peripheral sectors, and engage in technology cooperation with our major component suppliers to build a complete EPD market with an ultimate goal of pushing up our revenues and profits. Also, E Ink is collaborating with chip suppliers in a joint effort to develop new chip designs to make our EPD products more price competitive and functionally more powerful.

(5) Continue to promote new products and application markets

E Ink has broad and in-depth technologies for e-paper devices. We have also had a number of advances in the development of new technologies and new applications, such as digital signage and architecture applications. In the future, E Ink will continue to offer clients more options through the collaboration with leading brands, channels, and designers so as to become our main driving forces to advance our operation performance.

## Prospect

We have seen some preliminary accomplishments since our transformation efforts starting in 2012. With the ever growing popularity of the Internet of Things and portable devices, energy saving and lightweight/thinness/high efficiency have become an unstoppable trend into the future. We are optimistic about the broad applications of E Ink’s e-paper products in sectors other than eReader devices, such as ESL, mobile phones and wrist watches for their characteristics such as paper-like, extra-low power consumption, durability, lightweight/thinness and sunlight readability. This will eventually turn a lot of conceptual product designs into real end-user products. We expect in the near future the new applications will continue to become more popular, which in turn will bring more advantages to our business operation.

The management team will strive to enhance operation efficiency and allocate more R&D resources. We will continue our efforts in product innovation and help create values for our customers. We are sincerely thankful for our staff’s long-term contribution to the Company, and all the support and recognition from our clients, partners, suppliers, shareholders and the public. We will do everything we can to lead all our staff to move along the set track and pragmatically implement the growth strategies we created to accomplish our goals.

E Ink Holding Inc.



Frank Ko  
Chairman & CEO



## Financial Highlights

# Financial Highlights





## Condensed Balance Sheet

Unconsolidated

Unit : NT\$ thousands

| Item \ Year                                       |                     | 2010           | 2011 | 2012       | 2013       | 2014       | 31/03/2015     |
|---|---------------------|----------------|------|------------|------------|------------|----------------|
| Item  |                     |                |      | 13,944,015 | 12,999,748 | 7,906,308  | Not applicable |
| Property, plant and equipment                     |                     |                |      | 1,498,249  | 2,064,620  | 1,994,224  |                |
| Intangible assets                                 |                     |                |      | 49,790     | 45,038     | 106,479    |                |
| Other Assets                                      |                     |                |      | 29,132,178 | 27,551,124 | 28,533,208 |                |
| Total Assets                                      |                     |                |      | 44,624,232 | 42,660,530 | 38,540,219 |                |
| Current Liabilities                               | Before Distribution |                |      | 16,235,979 | 12,957,305 | 10,039,589 |                |
|   | After Distribution  |                |      | 16,235,979 | 12,957,305 | (Note)     |                |
| Noncurrent Liabilities                            |                     |                |      | 4,545,900  | 3,934,138  | 1,867,104  |                |
| Total Liabilities                                 | Before Distribution |                |      | 20,781,879 | 16,891,443 | 11,906,693 |                |
|   | After Distribution  |                |      | 20,781,879 | 16,891,443 | (Note)     |                |
| Equity Attributable to Shareholders of the Parent |                     | Not applicable |      | 23,842,353 | 25,769,087 | 26,633,526 |                |
| Capital Stock                                     |                     |                |      | 10,809,897 | 11,409,897 | 11,404,677 |                |
| Capital Surplus                                   |                     |                |      | 9,686,700  | 10,073,700 | 10,071,578 |                |
| Retained Earnings                                 | Before Distribution |                |      | 3,855,157  | 3,669,033  | 3,616,465  |                |
|   | After Distribution  |                |      | 3,855,157  | 3,669,033  | (Note)     |                |
| Other equity                                      |                     |                |      | (483,507)  | 642,351    | 1,540,806  |                |
| Treasury shares                                   |                     |                |      | (25,894)   | (25,894)   | -          |                |
| Non-Controlling Interests                         |                     |                |      | -          | -          | -          |                |
| Total Equity                                      | Before Distribution |                |      | 23,842,353 | 25,769,087 | 26,633,526 |                |
|   | After Distribution  |                |      | 23,842,353 | 25,769,087 | (Note)     |                |

Note: Pending for shareholders' meeting resolution

Consolidated

Unit : NT\$ thousands

| Item \ Year                                       |                     | 2010           | 2011 | 2012       | 2013       | 2014       | 31/03/2015 |
|---|---------------------|----------------|------|------------|------------|------------|------------|
| Current Assets                                    |                     |                |      | 18,520,690 | 14,216,444 | 15,882,253 | 13,805,656 |
| Property, plant and equipment                     |                     |                |      | 10,194,178 | 9,835,142  | 9,041,082  | 8,616,091  |
| Intangible assets                                 |                     |                |      | 10,267,299 | 9,797,804  | 9,675,994  | 9,541,863  |
| Other Assets                                      |                     |                |      | 6,933,453  | 6,235,705  | 4,354,523  | 3,890,375  |
| Total Assets                                      |                     |                |      | 45,915,620 | 40,085,095 | 38,953,852 | 35,853,985 |
| Current Liabilities                               | Before Distribution |                |      | 14,945,285 | 8,561,571  | 9,112,824  | 8,078,336  |
|   | After Distribution  |                |      | 14,945,285 | 8,561,571  | (Note)     | (Note)     |
| Noncurrent Liabilities                            |                     |                |      | 7,187,691  | 5,971,409  | 3,328,026  | 2,794,281  |
| Total Liabilities                                 | Before Distribution |                |      | 22,132,976 | 14,532,980 | 12,440,850 | 10,872,617 |
|   | After Distribution  |                |      | 22,132,976 | 14,532,980 | (Note)     | (Note)     |
| Equity Attributable to Shareholders of the Parent |                     | Not applicable |      | 23,842,353 | 25,769,087 | 26,633,526 | 25,143,376 |
| Capital Stock                                     |                     |                |      | 10,809,897 | 11,409,897 | 11,404,677 | 11,404,677 |
| Capital Surplus                                   |                     |                |      | 9,686,700  | 10,073,700 | 10,071,578 | 10,071,578 |
| Retained Earnings                                 | Before Distribution |                |      | 3,855,157  | 3,669,033  | 3,616,465  | 2,487,689  |
|   | After Distribution  |                |      | 3,855,157  | 3,669,033  | (Note)     | (Note)     |
| Other equity                                      |                     |                |      | (483,507)  | 642,351    | 1,540,806  | 1,179,432  |
| Treasury shares                                   |                     |                |      | (25,894)   | (25,894)   | -          | -          |
| Non-Controlling Interests                         |                     |                |      | (59,709)   | (216,972)  | (120,524)  | (162,008)  |
| Total Equity                                      | Before Distribution |                |      | 23,782,644 | 25,552,115 | 26,513,002 | 24,981,368 |
|   | After Distribution  |                |      | 23,782,644 | 25,552,115 | (Note)     | (Note)     |

Note : Pending for shareholders' meeting resolution

## Condensed Statement of Income

Unconsolidated

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

| Item \ Year   | 2010 | 2011 | 2012       | 2013       | 2014       | For the Year Ended<br>31/03/2015 |
|---|------|------|------------|------------|------------|----------------------------------|
| Net Sales   |      |      | 13,359,855 | 14,427,628 | 12,461,581 | Not applicable                   |
| Gross Profit  |      |      | 1,124,952  | 1,293,885  | 919,055    |                                  |
| Income from Operations                                  |      |      | 1,489      | 59,302     | (486,906)  |                                  |
| Non-operating Income and Expenses                       |      |      | (568,143)  | (16,413)   | 458,895    |                                  |
| Profit (Loss) Before Income Tax                         |      |      | (566,654)  | 42,889     | (28,011)   |                                  |
| Net Income (Loss)                                       |      |      | (748,222)  | 29,303     | 13,476     |                                  |
| Other comprehensive income (loss), net<br>of income tax |      |      | (143,924)  | 1,131,137  | 939,451    |                                  |
| Total Comprehensive Income (Loss)                       |      |      | (892,146)  | 1,160,440  | 952,927    |                                  |
| Earnings (Loss) Per Share(Note)                         |      |      | (0.69)     | 0.03       | 0.01       |                                  |

Note : Based on weighted average shares outstanding in each year

Consolidated

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

| Item \ Year  | 2010 | 2011 | 2012        | 2013        | 2014        | For the Year Ended<br>31/03/2015 |
|--|------|------|-------------|-------------|-------------|----------------------------------|
| Net Sales  |      |      | 26,704,782  | 18,905,129  | 14,571,205  | 2,708,785                        |
| Gross Profit   |      |      | 2,819,788   | 3,018,681   | 1,570,754   | 633,308                          |
| Income from Operations   |      |      | (1,448,408) | (1,648,317) | (3,234,911) | (478,196)                        |
| Non-operating Income and Expenses  |      |      | 813,411     | 1,436,827   | 2,913,156   | 411,696                          |
| Profit (Loss) Before Income Tax  |      |      | (634,997)   | (211,490)   | (321,755)   | (66,500)                         |
| Net Income (Loss) From Continuing<br>Operations  |      |      | (1,082,407) | (36,009)    | 54,209      | (209,447)                        |
| Net Income (Loss) From Discontinued<br>Operations  |      |      | -           | -           | -           | (962,357)                        |
| Net Income (Loss)  |      |      | (1,082,407) | (36,009)    | 54,209      | (1,171,804)                      |
| Other comprehensive income (loss) ,net<br>of income tax  |      |      | (140,248)   | 1,117,883   | 934,274     | (359,830)                        |
| Total Comprehensive Income (Loss)  |      |      | (1,222,655) | 1,081,874   | 988,483     | (1,531,634)                      |
| Total Net Income Attributable to<br>Shareholders of the Parent                                 |      |      | (748,222)   | 29,303      | 13,476      | (1,129,090)                      |
| Total Net Income Attributable to<br>Shareholders of the non-controlling<br>interests           |      |      | (334,185)   | (65,312)    | 40,733      | (42,714)                         |
| Total Comprehensive Income Attributable<br>to Shareholders of the Parent                       |      |      | (892,146)   | 1,160,440   | 952,927     | (1,490,150)                      |
| Total Comprehensive Income Attributable<br>to Shareholders of the non-controlling<br>interests |      |      | (330,509)   | (78,566)    | 35,556      | (41,484)                         |
| Earnings (Loss) Per Share(Note)  |      |      | (0.69)      | 0.03        | 0.01        | (0.99)                           |

Note : Based on weighted average shares outstanding in each year

Auditors' Opinions from 2010 to 2014

| Year | CPA Firm          | CPA                         | Audit Opinion                   |
|------|-------------------|-----------------------------|---------------------------------|
| 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 |
| 2013 | Deloitte & Touche | Shu-Wan Lin, Ya Ling Wong   | A Modified Unqualified Opinions |
| 2014 | Deloitte & Touche | Shu-Wan Lin, Ya Ling Wong   | A Modified Unqualified Opinions |

## Financial Analysis

Unconsolidated

| Item                           |   | Year | 2010 | 2011 | 2012     | 2013     | 2014     | 31/03/2015     |
|--------------------------------|---|------|------|------|----------|----------|----------|----------------|
| Capital Structure Analysis (%) | Debt Ratio  |      |      |      | 46.57    | 39.60    | 30.89    | Not applicable |
|                                | Long-term Fund to Fixed Assets Ratio                            |      |      |      | 1,894.76 | 1,438.68 | 1,429.16 |                |
| Liquidity Analysis             | Current Ratio (%)   |      |      |      | 85.88    | 100.33   | 78.75    |                |
|                                | Quick Ratio (%)   |      |      |      | 81.22    | 88.60    | 68.36    |                |
|                                | Times Interest Earned   |      |      |      | (5.37)   | 1.33     | 0.73     |                |
| Operating Performance Analysis | Average Collection Turnover                                     |      |      |      | 1.84     | 1.90     | 2.33     |                |
|                                | Days Sales Outstanding  |      |      |      | 198      | 191      | 157      |                |
|                                | Average Inventory Turnover                                      |      |      |      | 10.00    | 12.41    | 9.63     |                |
|                                | Average Inventory Turnover Days                                 |      |      |      | 1.14     | 1.16     | 1.41     |                |
|                                | Average Payment Turnover  |      |      |      | 36       | 29       | 38       |                |
|                                | Property, Plant and Equipment Turnover                          |      |      |      | 8.92     | 6.99     | 6.25     |                |
|                                | Total Assets Turnover   |      |      |      | 0.30     | 0.33     | 0.31     |                |
| Profitability Analysis         | Return on Total Assets (%)                                      |      |      |      | (1.53)   | 0.26     | 0.25     |                |
|                                | Return on Equity Attributable to Shareholders of the Parent (%) |      |      |      | (2.89)   | 0.12     | 0.05     |                |
|                                | Pre-tax Income to Paid-in Capital Ratio (%)                     |      |      |      | (5.24)   | 0.38     | (0.25)   |                |
|                                | Net Margin (%)  |      |      |      | (5.60)   | 0.20     | 0.11     |                |
|                                | Earnings Per Share  |      |      |      | (0.69)   | 0.03     | 0.01     |                |
| Cash Flow (%)                  | Cash Flow Ratio   |      |      |      | 18.79    | (14.58)  | (1.54)   |                |
|                                | Cash Flow Adequacy Ratio  |      |      |      | 139.38   | 103.84   | 93.66    |                |
|                                | Cash Flow Reinvestment Ratio                                    |      |      |      | (0.51)   | (4.91)   | (0.42)   |                |
| Leverage                       | Operating Leverage  |      |      |      | 197.27   | 5.91     | 0.38     |                |
|                                | Financial Leverage  |      |      |      | (0.02)   | (1.50)   | 0.82     |                |

Consolidated

| Item                           |   | Year           |        |        |        |         |            |
|--------------------------------|---|----------------|--------|--------|--------|---------|------------|
|                                |   | 2010           | 2011   | 2012   | 2013   | 2014    | 31/03/2015 |
| Capital Structure Analysis (%) | Debt Ratio  | Not applicable |        | 48.20  | 36.26  | 31.94   | 30.32      |
|                                | Long-term Fund to Fixed Assets Ratio                        |                | 304.39 | 322.73 | 331.39 | 324.25  |            |
| Liquidity Analysis (%)         | Current Ratio   |                | 123.92 | 166.05 | 174.28 | 170.90  |            |
|                                | Quick Ratio   |                | 97.35  | 125.12 | 149.10 | 140.65  |            |
|                                | Times Interest Earned                                       |                | (0.62) | 0.15   | (1.43) | (42.50) |            |
| Operating Performance Analysis | Average Collection Turnover                                 |                | 3.23   | 3.65   | 4.87   | 5.28    |            |
|                                | Days Sales Outstanding                                      |                | 112    | 99     | 75     | 70      |            |
|                                | Average Inventory Turnover                                  |                | 5.21   | 4.82   | 5.01   | 3.99    |            |
|                                | Average Inventory Turnover Days                             |                | 4.44   | 4.10   | 6.36   | 5.50    |            |
|                                | Average Payment Turnover                                    |                | 70     | 75     | 73     | 92      |            |
|                                | Property, Plant and Equipment Turnover                      |                | 2.67   | 1.89   | 1.54   | 1.23    |            |
|                                | Total Assets Turnover                                       |                | 0.58   | 0.44   | 0.37   | 0.29    |            |
| Profitability Analysis         | Return on Total Assets                                      |                | (1.27) | 0.41   | 0.36   | (2.96)  |            |
|                                | Return on Equity Attributable to Shareholders of the Parent |                | (2.89) | 0.12   | 0.05   | (4.36)  |            |
|                                | Pre-tax Income to Paid-in Capital Ratio                     |                | (2.78) | (1.28) | (3.18) | (8.65)  |            |
|                                | Net Margin  |                | (2.80) | 0.16   | 0.09   | (41.68) |            |
|                                | Earnings Per Share  | (0.69)         | 0.03   | 0.01   | (0.99) |         |            |
| Cash Flow (%)                  | Cash Flow Ratio   | 35.52          | 34.14  | 46.10  | (2.52) |         |            |
|                                | Cash Flow Adequacy Ratio                                    | 87.97          | 113.14 | 145.39 | 137.34 |         |            |
|                                | Cash Flow Reinvestment Ratio                                | 4.08           | 5.55   | 8.07   | (0.41) |         |            |
| Leverage                       | Operating Leverage  | (0.42)         | (0.25) | 0.39   | 0.06   |         |            |
|                                | Financial Leverage  | 0.88           | 0.90   | 0.95   | 0.95   |         |            |

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

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) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment

(7) Total Assets Turnover = Net Sales / Average Total Assets



#### 4. Profitability Analysis

- (1) Return on Total Assets =  $(\text{Net Income} + \text{Interest Expenses} * (1 - \text{Effective Tax Rate})) / \text{Average Total Assets}$
- (2) Return on Equity attributable to Shareholders of the Parent =  $\text{Net Income Attributable to Shareholders of the Parent} / \text{Average Equity Attributable to Shareholders of the Parent}$
- (3) Pre-tax Income to Paid-in Capital Ratio =  $\text{Income before Tax} / \text{Paid-in Capital}$
- (4) Net Margin =  $\text{Net Income} / \text{Net Sales}$
- (5) Earnings Per Share =  $(\text{Net income attributable to Shareholders of the Parent} - \text{Preferred Stock Dividend}) / \text{Weighted Average Number of Shares Outstanding}$

#### 5. Cash Flow

- (1) Cash Flow Ratio =  $\text{Net Cash Provided by Operating Activities} / \text{Current Liabilities}$
- (2) Cash Flow Adequacy Ratio =  $\text{Five-year Sum of Cash from Operations} / \text{Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend}$
- (3) Cash Flow Reinvestment Ratio =  $(\text{Cash Provided by Operating Activities} - \text{Cash Dividends}) / (\text{Gross Property, Plant and Equipment} + \text{Longterm Investments} + \text{Other Noncurrent Assets} + \text{Working Capital})$

#### 6. Leverage

- (1) Operating Leverage =  $(\text{Net Sales} - \text{Variable Cost}) / \text{Income from Operations}$
- (2) Financial Leverage =  $\text{Income from Operations} / (\text{Income from Operations} - \text{Interest Expenses})$

# 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 leader in the global ePaper industry and one of the High-Tech Subsidiaries of the YFY Group.

The 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.

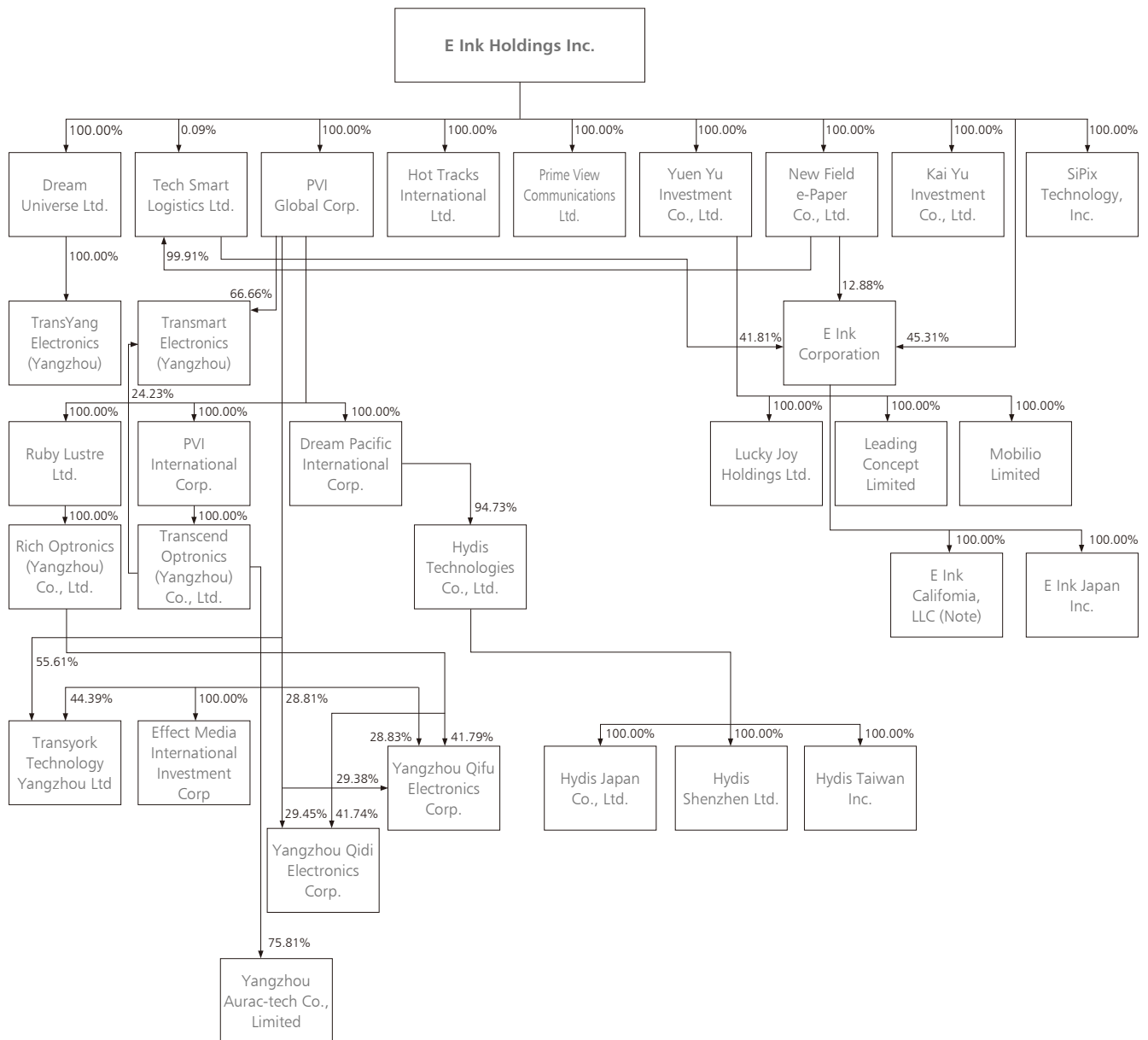
In 1997, E Ink Corporation was spun out of the MIT Media Lab to commercialize electronic ink and ePaper technology using TFTs from Philips Electronics. Seeing the potential of this new display medium, in 2005 E Ink Holdings acquired the ePaper business unit from Philips, and together with E Ink Corporation, 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, Hydix 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 eReader industry. With the leading ePaper technology, high quality products and outstanding supply chain, E Ink Holdings is now the world's leading supplier of 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 ePaper industry into a new era.

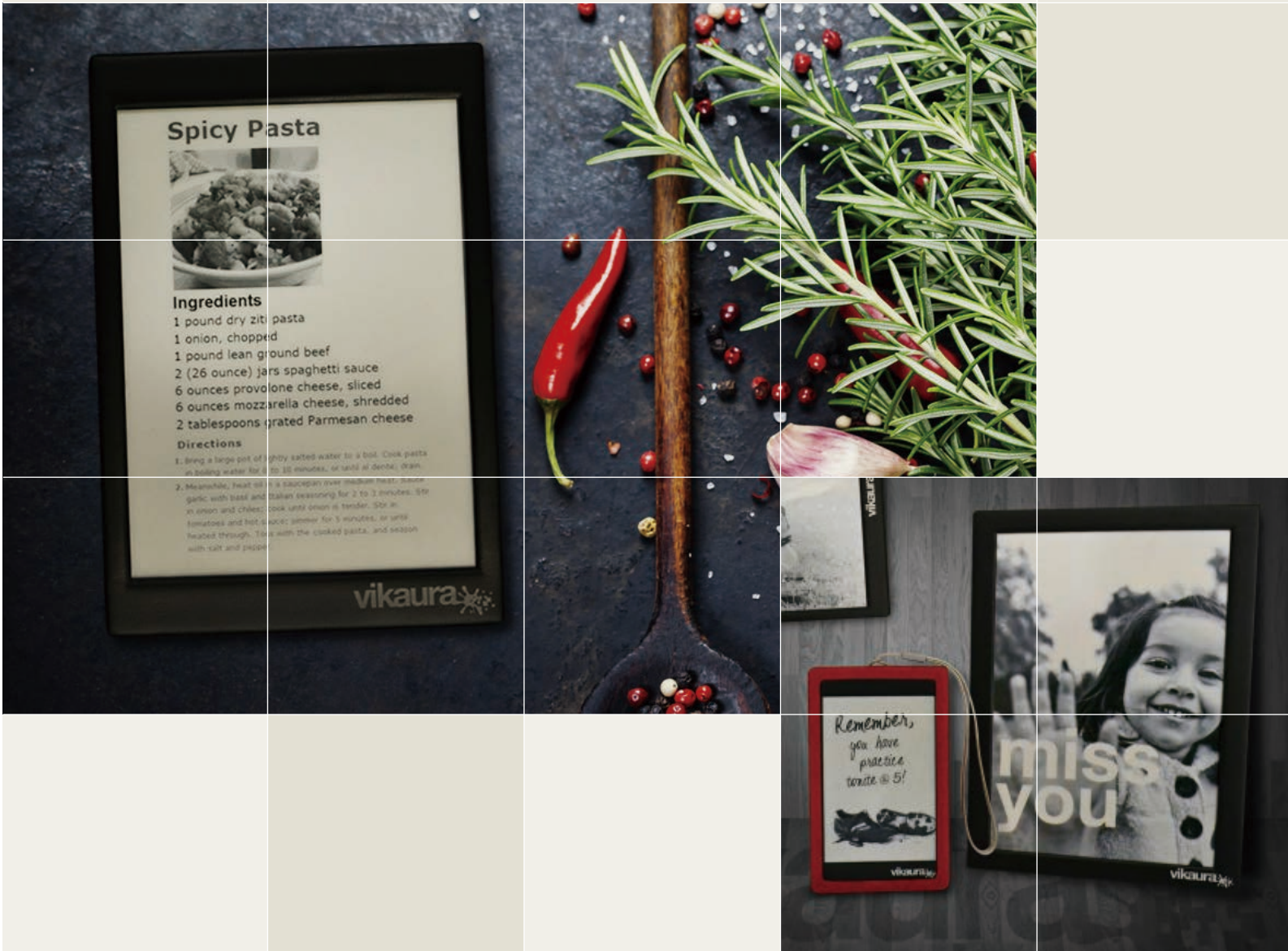
# AFFILIATES AND SUBSIDIARIES



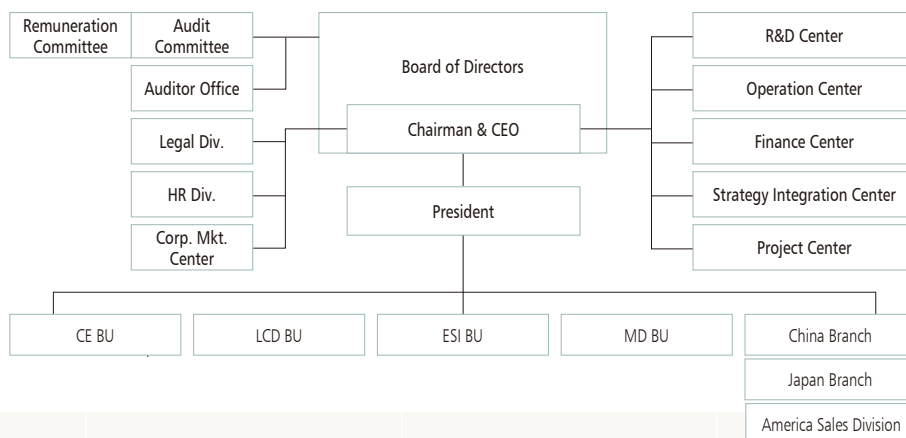
Note: Corporate name, "SiPix Imaging Inc", has been changed into "E Ink California, LLC" since July, 2014.

# COMPANY ORGANIZATION

# Company Organization







## OFFICE AND FUNCTIONS

### ● Chairman & CEO's Office and President's Office (including Legal Division and HR Division)

Planning and implementation of corporate strategy and internal controls; planning and implementation of public affairs management and services; planning and implementation of industrial safety and environmental protection; legal affairs administration; and planning and management of document control.

### ● R&D Center

Patent deployment planning; product technology R&D, implementation of mass production, problem feedback and analysis, design improvement and development, technology design and development of project products, and development of EPD system products.

### ● Operation Center

Planning and implementation of process analysis and production management, procurement planning and implementation of raw materials, equipment and projects; raw material demand planning; bonded product and logistics management; quality and reliability assurance of raw materials and products; management and implementation of production plans; planning and implementation of process analysis and production management of in-process products.

### ● Finance Center

Finance, accounting, IT planning and new IT Implementation, planning and implementation of business administration.

### ● Strategy Integration Center

New product verification, product management and planning, and implementation of the product management platforms of all business units.

### ● Project Center

Discussion of requirements and contents of the sales kit for individual customers with PM personnel; communication with outsourced market survey companies; defining the market survey direction for business operations and product strategies; cost and yield rate control after new product development.

### ● Corp. Mkt. Center

Planning and implementation of corporate marketing and public relations affairs.

- CE BU

E-reader sales; problem solving and analysis of customer projects; discussion of technical documents; production and submission of samples for confirmation; preparation and provision of jig BD tests.

- LCD BU

LCD sales; customer and business cultivation, operation, and supervision; support of mass production verification and product development for customers.

- ESI BU

R&D, design, manufacture, and sale of ESL, smart card, and industrial products.

- MD BU

Contact and cultivation of new and current accounts and potential customers, SF.com, and resolving quality anomalies.

## MANAGEMENT TEAM

| TITLE / OFFICE                                      | NAME             | On-board Date (Note) |
|---|------------------|----------------------|
| Chairman & CEO                                      | Frank Ko         | 02-12-2013           |
| President   | Johnson Lee      | 01-03-2008           |
| Chief R&D Center                                    | C. C. Tsai       | 01-08-2014           |
| Vice President (R&D Center)                         | James Hong       | 15-03-2010           |
| Vice President (R&D Center)                         | Yung-Sheng Chang | 01-02-1996           |
| Vice President (Audit office)                       | Mico Yu          | 06-02-2012           |
| Assistant Vice President (Operating Center)         | Mano Lo          | 09-12-2013           |
| Assistant Vice President (Product Development Div.) | Tung-Liang Lin   | 25-05-1995           |
| Assistant Vice President (Oversea Project)          | Jason Lin        | 07-10-2009           |
| Assistant Vice President (Oversea Project)          | Luke Chen        | 01-10-2010           |
| Assistant Vice President (Finance Center)           | Lloyd Chen       | 15-01-2010           |
| Assistant Vice President (CE BU)                    | Jeff Chang       | 07-06-2011           |
| Lead Of Accounting (Finance Center)                 | Jason CC Lin     | 26-03-2012           |

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

## DIRECTORS AND SUPERVISORS

| TITLE                | NAME  | Date Elected |
|----------------------|---|--------------|
| Chairman & CEO       | Representatives of YFY Inc.<br>Frank Ko                     | 18-06-2014   |
| Director             | Representatives of Aidatek Electorics Inc.<br>Johnson Lee   | 18-06-2014   |
| Director             | Representatives of Aidatek Electorics Inc.<br>Shou-Chung Ho | 18-06-2014   |
| Director             | Representatives of Aidatek Electorics Inc.<br>Felix Ho      | 18-06-2014   |
| Director             | Representatives of YFY Inc.<br>Chuang-Chuang Tsai           | 18-06-2014   |
| Director             | Representatives of YFY Inc.<br>Ching-Yuan Chang             | 18-06-2014   |
| Independent Director | Ten-Chung Chen  | 18-06-2014   |
| Independent Director | Biing-Seng Wu   | 18-06-2014   |
| Independent Director | Chao-Tung Wen   | 18-06-2014   |



1. Chairman & CEO / Frank Ko
2. President / Johnson Lee
3. Chief R&D Center / CC Tsai

# REVIEW OF OPERATIONS

## Operations Overview





## 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 (ePaper display, EPD), and the Thin Film Transistor Liquid Crystal Displays (TFT-LCD).

Sales from display product sales accounted for 91.18% of company revenue in 2014, with ESL and other products accounting for 8.82% of revenue.

### Main Products

E Ink Holdings has two main product categories. One category is ePaper display products which are mainly used for eReaders, electronic shelf labels (ESL), mobile phones, and watches. 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.

### 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.

## 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 2008.

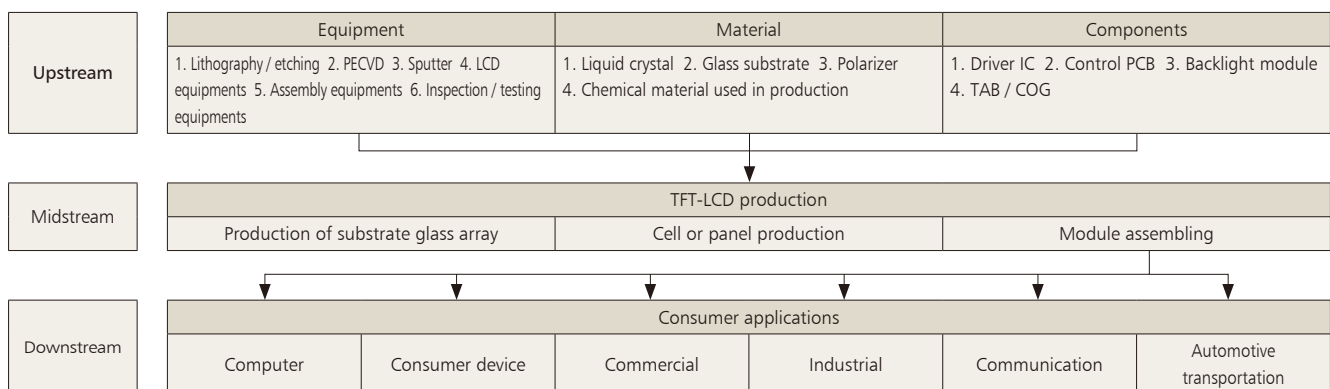
As thin as ordinary paper and with a wide viewing angle, the electronic paper display (EPD) is extremely energy saving and bistable and can be viewed under strong light. Applications successfully developed with the EPD include e-readers, smart cards, electronic tags, clocks, phone button displays, advertising billboards and a diverse range of applications. In addition to e-readers, the potential of other EPD applications has won increasing market recognition. For example, the continuous growth of electronic shelf labels has led to the gradual acceptance of European and US retailers. As electronic shelf labels can correspond to the Internet of Things (IoT) in the long run, their future growth is promising. Other EPD applications include the SONY Digital Paper for the e-commerce and education markets, the world’s first mass-produced dual-screen YotaPhone, the Tomoon smartwatch linking with smartphone apps, the electronic shelf label integrating with system server for real-time price update, the Navit reader used at hospitals for medical record display, the fashionable Kisai Rorschach and Epson Smart Canvas EPD wristwatches, and the unique ClockOne home wall clocks.

Thirty-two-inch large-size B/W and color EPDs are basically used for electronic billboards and information walls. Besides replacing LCD and LED panels, they are also solutions for green display technology. Apart from maintaining technological leadership, expanding patent deployment, and cultivating the e-paper industry, after integrating the personnel, technology, and resources of EIC and SiPix, our e-paper market deployment will be more complete. Upon the steady growth in the e-reader market, we will continue our transformation toward the diversification and development of EPD applications, so as to become the leader of the global EPD industry.

### Status and development of the small and medium sized TFT LCD product

Mobile phone panels will continue to drive the growth of small- and medium-sized display market as the functional segmentation between smartphones and other devices is increasingly unclear. The demand for automotive displays will become the highlight of the display industry. After automotive displays become a standard feature, demand will increase to drive automotive panel growth. While smartphones have shared the sales of other small- and medium-sized panels and the sales amount of automotive displays in 2014 increased significantly, the latter has become the second largest application of small- and medium-sized panels. In addition, high-resolution, wide-angle products will be the focus of automotive display. Compared to 2013, the shipping quantity in 2014 of panels for mobile phone panels increased by 10%, small- and medium-sized panels for tablets increased by 7%, and panels for automobile displays increased significantly by 33% to about 87.3 million pieces.

### 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 on its own TFT production facilities, but it also outsources manufacturing to G5/ G6 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)

Major e-reader customers launch new models every year, including Amazon, Rakuten, SONY, and Barnes & Noble. The brand new Paperwhite from Amazon using the E Ink Carta technology was even praised as “the best ever e-Reader in history” by CNN Money. In addition, major e-reader markets have made aggressive deployment in markets outside of the USA, such as Japan, China, and other emerging markets. For example, after Rakuten’s aggressive international channel deployment, Kobo e-readers are now available in countries like the Philippines, Italy, India, and Ireland. Therefore, we will continue to cultivate the e-reader market to maintain our global EPD technology and market leadership.

### 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.

### 3. Electronic Shelf Label

Shelf labels made using electronic paper are lightweight and energy saving. These labels provide usability features matching that of ordinary paper, while allowing users to dynamically update prices from any location in a retail store. Through the use of a computer network, users are able to accurately update pricing instantaneously. The use of electronic paper labels also corresponds to the trend of goods management automation in large supermarkets and warehouses. Using electronic paper in labels will reduce the risks of wrong pricing and labeling, allow the store managers to instantly respond and update the promotion prices right from the floor, and facilitate price tag replacement over the network. In this highly competitive market, electronic labels effectively cut down the labor cost from manual label management. The use of computer networks for pricing updates can also reduce the amount of manpower required for manual updates. The ability to quickly update pricing provides brick and mortar stores to more effectively compete with online retailers by being able to rapidly respond to price changes and different merchandizing techniques used by online retailers. Bistability, one of the most important characteristics of electronic paper displays, means that electronic paper displays (EPDs) only consume electricity when reading and writing data. So long as the information on the EPD is unchanged, no energy is consumed. This helps satisfy the current trend for energy saving and greatly decrease the cost for electronic labels in supermarkets. Additionally, when compared to other displays, data on EPDs can still be seen at viewing angles that approach 180-degrees, allowing information to be seen further away or at slanted viewing angles. For example, during the Double 11 Festival (November 11, literally Bachelor’s Day) of China, a leading home electrical chain needs to finish updating a total of 15 million price tags within three days. In addition to the high error rate and low efficiency of manual work, the waste of paper price tags will bring a huge environmental impact. With the electronic shelf label, however, they can update all price tags in real time and more accurately. In order to meet the demand for electronic labels, we have also developed low temperature electronic paper for goods stored in fridges or freezers as well as black, white and red electronic paper that can be used demarcate special pricing or sales promotions in addition to conventional black and white labels. In the near future, we will launch low-voltage-operated e-paper for the electronic shelf label. Compared to the supermarket chains using wireless transmission, this battery-free solution will be more suitable for smaller shops and needs no remodeling or additional hardware. All it needs is a NFC-supported mobile phone to update shelf label contents at any time.

### 4. Smart Display Card

The EPD has been used on smart display cards for years, particularly in Europe and the USA, such as the bank OTP card for issuing VISA and MASTER cards. In addition, Union Pay International of China has voluntarily used the smart display card in recent years. As increasing businesses are joining the line of issuers, the market potential of smart display cards is promising. As e-paper is bistable, slim, lightweight, and pressure-resistant, by embedding it in the IC chip of a smart display card, after passing ISO7816 certification, it can be used to display OTP, balance amount, and bonus points and in consumption, financial, and secure transaction certificates. Therefore, smart display cards have been used on fiscal cards and stored value tickets for public transport. Examples include the Bank SinoPac’s MII card, the smart stored value ticket of KRTC, I-Pass, and Taiwan Smart Card. The EPD is also used on the dynamic card verification value (dCVV) of credit cards as an anti-fraud means worldwide. Apart from VISA and MASTER planning to use the EPD for CVV display, American Express (AMEX) will follow suit. With the continual advancement of EPD technology, ISO7816-compliant matrix displays will be developed to meet the demand for diversifying smart cards, such as the integrating of discount barcode reader, public transport tickets, and credit cards, so as to expand the scope of product uses and enhance the market visibility of EPD products.

### 5. Luggage/Logistic Tag

With its bistability, reflectivity, low energy consumption, wide viewing angle near 180°, sunlight readability, flexibility, and pressure resistance

characteristics, the EPD has gradually become the total solution of luggage and logistic tags for European, US, and Japanese air transportation and logistics industries. Take the air transportation industry for example. As over three billion people are traveling by air across the world, airlines need to spend billions of dollars to compensate for the luggage loss of passengers each year. Therefore, how to effectively trace luggage and reduce labor, resource, and paper expenses have become an issue needed urgent solution of the air transportation industry. System solutions can combine EPDs and wireless transmission technology such as Bluetooth or NFC to transmit and receive the ID code and information of the corresponding flight and display the passenger and flight information on the tag to ensure luggage traceability. In the logistics industry, as over billions of paper tags are used every year for logistics, to save labor, resources, and paper consumption and improve the performance of environmental protection, many logistics companies are figuring out a total solution replacing paper logistics tags with the EPD and combine EPD tags with wireless transmission for central control and monitoring of cargo delivery status. Given luggage/logistics EPD tags can save paper and resource consumption, reduce labor on paper tag replacement, and enhance luggage and cargo traceability and tractability to significantly reduce overall travel/logistics time and monetary cost and thereby speed up travel/logistics, EPDs will become an unavoidable trend in the future of air transportation and logistics industries.

## 6. Smart Home

The smart home has become a global technology advancement trend! After acquiring NEST at US\$3.2 billion (approx. NT\$96 billion) last year, Google immediately initiated the "Works with NEST" program. In the same year, Apple announced the Apple HomeKit to start a cross-industry (electronics, energy, and security) and cross-brand solution that integrates system electronics and appliances, blends mobile and convenient smart functions, links with the internet, and saves energy, so as to bring technology to a new level, thereby creating a revolution in modern technology and modern life.

This new revolution even urges the evolution of traditional home appliances with new technology to make life more convenient, effectively save energy, and realize life with technology together.

Unlike conventional displays, the EPD is perfect for the new technology trend in modern times for its unique visual feeling, high contrast view, and unlimited viewing angle to provide an ideal information display for new technology.

EPD's outstanding bistability characteristic fulfills the energy conservation needs of a smart home. Its near paper visual effect can make viewing more comfortable at home.

According to Business Insider, the smart home is a fast-growing market with a compound annual growth rate of up to 52%. Its global market scale will increase from US\$6.1 billion (approx. 400 million households) in 2015 to US\$4.09 trillion (approx. 1.8 billion households) in 2019. From the smartphone onward, new technology has changed lifestyles in all aspects. The big data transfer era has come as the network infrastructure improves. Along with the global concern about energy conservation, all aspects are increasingly popular and mature and conditions are ready. With its eco-friendly and energy-saving characteristics, the EPD has earned increasing recognition of smart home customers, and we will build new technology and a new lifestyle for this bustling, new era together with the EPD.

## 7. Internet of Things (IoT)

The Internet of Things (IoT) was officially proposed in 1999 by the MIT Auto-ID researching RFID applications. Today, over five billion devices, including mobiles and PCs, are used by over 6.7 billion people across the world. It is estimated that 0.1 trillion devices will be linked together by the internet within the next decade. This also generates huge business opportunities for the IoT. By 2020 it is expected that the market scale of IoT will fall between US\$0.15 trillion and US\$ 0.2 trillion. Therefore, every business is preparing to make a share from this market.

For its bistability and energy-saving characteristics, the EPD provides the best solution for power unavailability or high power-consumption applications and creates opportunities for cultivating brand new business models under the existing internet framework among businesses. For example, this year Finnish coffee company Paulig launched its Muki mug which uses the thermoelectric effect to obtain adequate electricity to power an EPD, and the Muki is more than just an ordinary coffee mug. With a smartphone app and wireless transfer, users can display a personal photo on the coffee mug. In addition to innovation, there lies a potential business model and new form of data collection that can bring more to owners and consumers. In addition, Aichi Prefecture Hospital in Japan launched the e-registration service last summer with the IoT. Besides keeping track off their own registration information, patients can receive information regarding promotional activities of nearby stores through the wireless network and sensors. Apart from enhancing medical consultation satisfaction, the hospital increased income from non-medical practice. Thanks to the energy-saving EPD, the problem of charging thousands of registration cards at the same time was solved, and system realization was completed.

We believe that as relevant industry chains and technologies mature, including wireless charging, NFC, (optoelectric) thermoelectric conversion, and energy harvesting technologies, and service platforms popularize, and along with the bistability and energy saving characteristics of EPD, more new applications (such as smart home and luggage/logistics tags) and new business models will be created. Apart from the ubiquity of IoT, the EPD can

be ubiquitous as well to create more business opportunities on the market and make human life more convenient.

## 8. Mobile Device

With advantages in power-saving, full viewing angle, sunlight readability and easy-on-eyes, the potential of EPD has received high market recognition.

The emerging wearable market keeps drawing attention from consumers all of the world. The continual technology improvement has enabled EPD into wider application such as mobile phones, activity trackers, healthcare and gaming devices by providing innovative features and new user experience. Leading companies including Apple, Samsung, Sony, Lenovo and Yota have launched various products in mobile phones, tablets, smart watches, activity trackers by connecting healthcare, internet community, real-time communication and smart functions to provide new use-cases and values. By exploring EPD's growing potential, we have launched new generation Yotaphone2 and Sony Smartband Talk, and both products have received favorable reviews from both industry and consumers.

### Competition and Positioning

In terms of EPD products, as mass production already began in 2005, we are already ahead of competitors in production technology, product yield rate, and new technology development (such as flexible EPDs and color EPDs). In the e-reader market, our products have commanded over 95% of the market, with key accounts including Amazon and KOBO. In addition, we have successfully launched the dual-screen YotaPhone with Yota. With a first-class R&D team, we have absolute competitive strength in technology R&D and product development in the future.

In terms of TFT-LCD products, with years of field experience, we are capable of providing customers with special application products and custom products. As there are different kinds of similar products of small volume, powerful integration, design, and development capabilities are required. After years of cultivation, we have already developed excellent competitive strengths in these fields.

## RESEARCH AND DEVELOPMENT OVERVIEW

In 2014 we continued to develop EPD-related products and technologies. Besides unremittingly optimized B/W EPD modules, we began aggressive commoditization of color EPDs by applying them to electronic labels, soft EPDs, flexible EPDs, and touch EPDs, and our new products received great market feedback. In addition, we expanded capacity to secure leadership in the EPD market. In TFT-LCD products, we continued to the R&D of various touch technologies, fringe-field switching (FFS) technology, and high-standard displays (military grade/automobile grade). By fulfilling the special product needs of niche customers, we could maintain sustained and leading development in the extremely competitive display industry. In 2014 and Q1 2015, we invested consolidated R&D expenses of about NT\$1.75 billion and NT\$364 million in relevant R&D projects.

### Electronic Ink Technology

E Ink Carta™ is the newest generation of mass produced electronic ink products, and has the highest surface reflection to date with a 50% improvement in contrast ratio and 22% improvement in reflection when compared with the last generation of E Ink products. Texts and images are displayed in a crisp and detailed manner, allowing users to peruse the contents as comfortably as they would reading off printed paper.

Carta is lightweight, environmentally friendly, and may be comfortably read for extended periods of time, making it suitable for eReaders, digital dictionaries, reference books, magazines and other future products to replace printed paper. Carta allows readers to enjoy the convenience of digital products without sacrificing the comfort provided by printed materials.

### 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.

### Three-color E Ink technology

E Ink Spectra™ is the newest generation of mass produced multi-colored E Ink product. In addition to black and white color pigments, Spectra includes an additional red color pigment that makes it suitable for electronic labels and advertising panels. Retailers can easily make use of electronic labels to accurately replace product pricing and draw the attention of potential customers. Electronic labels with red backgrounds can draw consumer attention to achieve sales objectives and greatly improve product marketability.

### Flexible electronic paper

Features of plastic-based soft EPDs are almost unbreakable, much lighter and much thinner than glass-based versions. Therefore, they are exceptionally important to large-sized EPD modules. Currently, plastic-based soft EPDs are mostly used on mobile devices and consumer electronics. 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. We have developed flexible electronic paper, E Ink Mobius™, that has similar applications to glass backed electronic paper for mobile devices and consumer electronics.

The weight savings with plastic TFTs can make a significant difference in an end products' specifications: a product with a 10.7" LCD-based display weighs an average of 1.44 pounds; a product with an 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. E Ink Holdings is now working extensively with multinational companies in plastic backed flexible electronic paper displays and modules for the development and mass production of larger electronic readers. Since its release, E Ink is now working closely with several renowned multinational companies to develop and manufacture plastic-backed Mobius electronic paper display modules, and this product has been received with overwhelming responses in the market.

### Flexible EPDs

Our flexible EPDs are designed upon organic TFTs with flexible base technology by integrating with the flip-chip technology and the stress of plastic materials. Based on these features, we developed full-plastic EPDs that are light, shatter-resistant, almost unbreakable, and easy to carry to fulfill the demand for lightness and shatter-proof. Currently our flexible EPDs are mainly used on consumer electronics and mobile devices, and mass production has begun.

### 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

Although resolution at 150-200ppi (pixel per inch) is good enough for general e-readers, a higher resolution at 300+ppi is always demanded for advanced, special applications, such as "paperless offices". Thus we launched the super-high resolution B/W EDP modules at 300ppi in two sizes, 9.7 inch and 11.5 inch in 2011, for customers to start terminal product design-in. Furthermore in 2014, we completed and started the mass production of the 6-inch model for users to read in greater detail and more comfortably.

### Front light EPDs

Reading comfortably in dim environments is always a requisite of e-books. Apart from making comfortable reading in dim environments a reality for consumers to enjoy more the convenience of e-reader technology, our new front-light EPDs have further diversified the application of EPDs.

### Fringe Field Switching (FFS) technology

FFS offers the widest viewing angle available currently for LCD technologies. Its bright and wide viewing angle characteristics are made possible by rotating the interior electrode surface of almost uniformly aligned liquid crystal molecules with boundary electric fields. It combines features of horizontal and vertical wide viewing angles to offer up to 180 degrees viewing angle. Reflection components in the array create a bright display even under strong ambient lighting. This makes our FFS technology a perfect combination of low power consumption, high transmittance rate, high brightness, fast response, and high color reproduction. FFS LCDs are now the main display panels for smartphones. FFS is currently used in smartphones, tablets, and automotive electronics. With continuous improvements, it may be adopted in the industrial applications as well.



## BUSINESS DEVELOPMENT OBJECTIVES

### Short-Term Business Development Objectives

1. Follow product trends to provide customers with upgraded new products, support customers during their product design life cycle, effectively share initial development costs, and diversify the applications using E Ink displays.
2. Improve product quality for adoption and acceptance by more leading global companies.
3. Enhance manufacturing yield and production capacity at panel and module plants.
4. Establish local support services 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. Seek international cooperation to develop advanced display technologies and associated applications. Continued development and improvement of advanced technology to ensure E Ink's leading role in the technology supply chain.
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 a leading position in product development.

## Market and Sales Overview

### Electronic Paper Display Market Analysis

The market for ePaper displays is growing beyond eReaders. ePaper displays have been used in product other than eReaders for long time. E Ink began a focused effort in diversifying into different markets starting in 2013. Where we saw some growth in 2013, we have seen even bigger adoption in 2014. E Ink used to be recognized as the company that made eReaders possible. It is now recognized as the company that makes many different products possible. The special properties of low power, readability, lightweight and ruggedness are driving the expansion of ePaper displays into many different markets. The market portfolio is becoming very diversified with many major products now using ePaper displays to deliver unique features to the customer.

### eReader Applications

The market for eReader continues to be a strong and stable. There is no longer a debate about whether tablets were going to replace ePaper eReaders. This position is supported by activities by our customers and market surveys. E Ink's major customers continued to launch new eReader products in 2014.

The strength of the eReader market is supported by market data as well. Recent surveys from the Pew Research center show that the eReader is still the most popular form for Americans to read eBooks. eReader ownership amongst Americans is also increasing. One-third of adults now own an eReader.

E Ink continues to be optimistic about the eReader market going into 2015 with the market size expected to continue to be in the range of 12-15 million units are reported by market research firms such as IHS.

### Electronic Shelf Labels Applications

Building on the success in the eReader market, E Ink products are also seeing success in other markets as well. The Electronic Shelf Label (ESL) market is one application where we continued to see significant growth in 2014 and expect this to continue into 2015 where we are expecting to again see 100% growth over 2014.

Only a small part of the retail market has adopted ESL tags with most retail stores still using paper. This is changing and the adoption is expected to accelerate. The largest adoption is presently happening in Europe followed by Asia and then North America. The driving reasons behind this adoption is partly due to regulations on pricing accuracy and also as retailers try to remain more competitive versus online retailers which change prices quickly to react to different market conditions. With ESL tags, retailers can guarantee pricing accuracy and can also quickly change prices to match online prices.

## Other Markets

Starting in 2013, E Ink started a program focused on diversifying into many other markets besides eReaders. In 2014 we continued to show the positive results of that effort with numerous design wins using E Ink displays in products in markets never thought of before.

E Ink displays are in products from markets such Smartphones, wearable technology, medical, travel industry and digital signage.

### Other Markets: Mobile

The smartphone market is one area that can become quite large for E Ink. The first product in this market has received and continues to receive a lot of attention from the market and the media. The YotaPhone from Yota Devices has been labeled as the biggest innovation in the mobile phone market since the introduction of the iPhone. The first generation YotaPhone went into production in 2013 with availability in 5 markets in Eastern and Western Europe. Yota announced the second generation YotaPhone at the Mobile World Congress in February 2014 and continues to get the same level of attention. Yotaphone 2 is now in production and is expanding into markets around the world and they announced their first entry into the North American Market starting in mid-2015.

### Other Markets: Transportation

E Ink continued to get new design wins 2014 with such new products as the Electronic Luggage Tag announced by Vanguard ID, which is presently being evaluated by the different airline companies. The luggage tags would replace the paper tags now in use and would enable the airlines to track passenger's luggage in an effort to eliminate lost luggage.

### Other Markets: Health and Fitness

E Ink displays are also used in the newest glucose meter from a major global pharmaceutical company. The device was released in Europe in 2013 Q4 and will be distributed worldwide in 2014. The health and medical device markets are two markets that market analysts HIS and other market research firms agree have major growth potential going forward. This is terms of both number of devices and the total dollar value of the market.

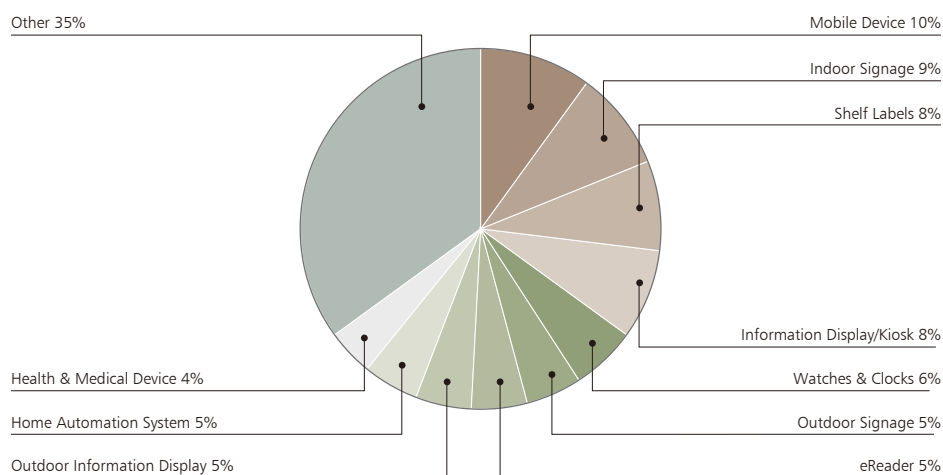
### Other Markets: Large Area Signage

A market that E Ink just started exploring is also showing some early signs of adoption. E Ink displays are ideal for large area signs because they are extremely low power, very light weight and readable under bright lights. There is a lot of interest in using E Ink displays for large information signs. A great example of this is the information display sign that was installed in the North Delegate Lounge in the United Nations building in New York City. The sign is made up of 231 separate displays and is about 6 meters long by 1 meter tall. This is a market that has very large potential because it includes information kiosks, information signage, billboards, and many more. This is a market that is just starting to develop for E Ink and we expect to see greater progress in 2015 through 2016.

### Other Markets: Summary

E Ink's efforts to diversify the business are producing results. The design wins so far are expected to generate order volume in 2014 and future years. More important, by diversifying the application market it reduces the risk of the business to any changes in one specific market and set the foundation for growth going forward.

E Ink is no longer viewed as just the company that provides displays for eReaders. It is recognized as the world leader there. But now it is also recognized as providing displays to many more applications. This is clear from the analysis of the sales leads coming into E Ink. As is shown by the chart below, E Ink now receives leads distributed across many different industries.



Areas of interest and applications for potential customers of E Ink Holdings.

### Small and medium size TFT LCD monitor market

E Ink Hydis LCD division refocused in 2013 to become more efficient and profitable. Hydis has a number of patents that protect the Fast Fringe Field (FFS) technology used in many high end LCDs. Hydis refocused its product strategy to address primarily the small and medium sized TFT LCD market. Specifically to focus on market applications such as medical, automotive and marine where the margins are highest and the FFS technology is a clear value.

### Competitiveness

E Ink is in a unique competitive position with its products and technology. It has a very strong customer portfolio in electrophoretic displays. In addition, licensing position regarding our FFS technology also puts E Ink in a unique position where we can benefit from the LCD market without having to invest significant capital in LCD manufacturing facilities. The FFS LCD display provide wide angle viewing, lower power consumption and better sunlight readability compared to other LCDs. E Ink also understands the markets for our customer products. It continues to develop display products to better meet our customer needs and rapidly introduce those products to market.

### Factors for and against development and coping strategies

#### (1) Favorable factors

- A. In terms of the technical perspective, we have acquired E Ink Corporation in 2009, and SiPix Technologies in 2012, allowing E Ink Holdings to secure patent protection for electrophoretic EPD technologies. We have further integrated upstream and midstream supply chain elements for EPD products to reduce cost and maintain our leading position in the industry.
- B. For EPD product business strategies, in addition to our focus on eReaders, electronic shelf labels, we have also began to concentrate on developing other product applications that include mobile devices, wearables, and medical applications.

#### (2) Unfavorable factors and coping strategies

- A. The market for eReaders is under competitive pressure from tablets, which may further restrict shipping volume and profitability for E Ink Holdings products.

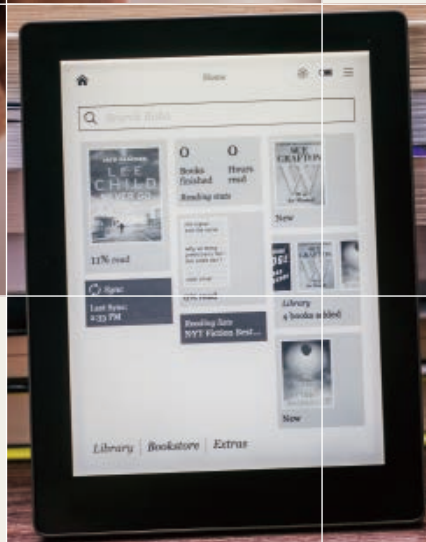
Response: work with customer from other fields to develop EPDs for different applications and expand the market for EPDs.

- B. Various display manufacturers have begun producing small- and medium-sized displays. Market supply has grown, which would strain the market prices for E Ink Holdings products.

Response: E Ink Holdings has abandoned the cost competition approach. Instead, we choose to develop niche markets to maintain gross margins and FFS licensing as our main strategies.

E Ink Holdings Inc.

# Financial report



Financial Statements for the  
Years Ended December 31, 2014 and 2013 and  
Independent Auditors' Report

CONTENTS

---

|    |                                    |
|----|------------------------------------|
| 30 | INDEPENDENT AUDITORS' REPORT       |
| 31 | BALANCE SHEETS                     |
| 33 | STATEMENTS OF COMPREHENSIVE INCOME |
| 34 | STATEMENTS OF CHANGES IN EQUITY    |
| 36 | STATEMENTS OF CASH FLOWS           |

# 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, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. 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, 2013, the investments in which the Corporation had equity-method investments by Hydix Technologies Co., Ltd. The investments amounted to NT\$175,316 thousand as of December 31, 2013, which accounted for about 0.4% of the Corporation's total assets as of the above date. The Corporation's equity of NT\$12,577 thousand in their comprehensive income in 2013 were about 1.1% of the Corporation's total comprehensive income. 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 Regulations Governing Auditing and Attestation 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, 2014 and 2013, and the financial performance and its cash flows for the years ended December 31, 2014 and 2013, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers.

March 13, 2015

## Notice to Readers

*The accompanying financial statements are intended only to present the financial position, financial performance 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 independent 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 independent auditors' report and financial statements shall prevail.*



## BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

| ASSETS  | 2014                 |            | 2013                 |            |
|---|----------------------|------------|----------------------|------------|
|   | Amount               | %          | Amount               | %          |
| <b>CURRENT ASSETS</b>   |                      |            |                      |            |
| Cash and cash equivalents (Notes 4 and 6)                             | \$ 791,496           | 2          | \$ 1,767,590         | 4          |
| Financial assets at fair value through profit or loss (Notes 4 and 7) | 58,813               | -          | 1,498,361            | 4          |
| Debt investments with no active market (Notes 4 and 9)                | 600,000              | 2          | -                    | -          |
| Accounts receivable (Note 4)  | 402,446              | 1          | 205,661              | -          |
| Accounts receivable from related parties (Notes 4 and 23)             | 2,996,556            | 8          | 7,108,474            | 17         |
| Other receivables from related parties (Note 23)                      | 1,925,469            | 5          | 825,473              | 2          |
| Inventories (Notes 4 and 10)  | 962,025              | 3          | 1,434,873            | 3          |
| Prepayments   | 81,527               | -          | 84,267               | -          |
| Other current assets (Notes 4, 17 and 24)                             | 87,976               | -          | 75,049               | -          |
| <b>Total current assets</b>   | <b>7,906,308</b>     | <b>21</b>  | <b>12,999,748</b>    | <b>30</b>  |
| <b>NON-CURRENT ASSETS</b>   |                      |            |                      |            |
| Available-for-sale financial assets (Note 4)                          | 851,785              | 2          | 766,310              | 2          |
| Financial assets measured at cost (Notes 4 and 8)                     | 22,305               | -          | 77,601               | -          |
| Debt investments with no active market (Notes 4 and 9)                | 600,000              | 2          | -                    | -          |
| Investments accounted for using equity method (Notes 4 and 11)        | 26,692,398           | 69         | 26,453,736           | 62         |
| Property, plant and equipment (Notes 4, 12 and 23)                    | 1,994,224            | 5          | 2,064,620            | 5          |
| Other intangible assets (Note 4)                                      | 106,479              | -          | 45,038               | -          |
| Deferred tax assets (Notes 4 and 17)                                  | 338,397              | 1          | 209,144              | 1          |
| Other non-current assets  | 28,323               | -          | 44,333               | -          |
| <b>Total non-current assets</b>                                       | <b>30,633,911</b>    | <b>79</b>  | <b>29,660,782</b>    | <b>70</b>  |
| <b>TOTAL</b>  | <b>\$ 38,540,219</b> | <b>100</b> | <b>\$ 42,660,530</b> | <b>100</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                           |                      |            |                      |            |
| <b>CURRENT LIABILITIES</b>  |                      |            |                      |            |
| Short-term borrowings (Note 13)                                       | \$ 1,132,325         | 3          | \$ 149,025           | 1          |
| Accounts payable  | 513,658              | 1          | 1,257,374            | 3          |
| Accounts payable to related parties (Note 23)                         | 5,505,527            | 14         | 9,045,728            | 21         |
| Other payables (Note 20)  | 490,729              | 1          | 412,017              | 1          |
| Other payable to related parties (Notes 20 and 23)                    | 61,147               | -          | -                    | -          |
| Current tax liabilities (Notes 4 and 17)                              | 81,850               | -          | 32,429               | -          |
| Receipts in advance (Note 23)   | 132,531              | 1          | 248,031              | 1          |
| Current portion of long-term borrowings (Note 13)                     | 2,089,715            | 6          | 1,780,629            | 4          |
| Other current liabilities (Note 23)                                   | 32,107               | -          | 32,072               | -          |
| <b>Total current liabilities</b>                                      | <b>10,039,589</b>    | <b>26</b>  | <b>12,957,305</b>    | <b>31</b>  |
| <b>NON-CURRENT LIABILITIES</b>  |                      |            |                      |            |
| Long-term borrowings (Note 13)  | 1,812,857            | 5          | 3,870,943            | 9          |
| Other non-current liabilities (Notes 4, 11, 14, 17 and 23)            | 54,247               | -          | 63,195               | -          |
| <b>Total non-current liabilities</b>                                  | <b>1,867,104</b>     | <b>5</b>   | <b>3,934,138</b>     | <b>9</b>   |
| <b>Total liabilities</b>  | <b>11,906,693</b>    | <b>31</b>  | <b>16,891,443</b>    | <b>40</b>  |

(Continued)

| ASSETS                       | 2014                 |            | 2013                 |            |
|------------------------------|----------------------|------------|----------------------|------------|
|                              | Amount               | %          | Amount               | %          |
| EQUITY (Notes 14, 15 and 19) |                      |            |                      |            |
| Share capital                | <u>\$ 11,404,677</u> | <u>30</u>  | <u>\$ 11,409,897</u> | <u>27</u>  |
| Capital surplus              | <u>10,071,578</u>    | <u>26</u>  | <u>10,073,700</u>    | <u>24</u>  |
| Retained earnings            |                      |            |                      |            |
| Legal reserve                | 1,058,406            | 3          | 1,055,476            | 2          |
| Special reserve              | 70,678               | -          | 483,507              | 1          |
| Unappropriated earnings      | <u>2,487,381</u>     | <u>6</u>   | <u>2,130,050</u>     | <u>5</u>   |
| Total retained earnings      | <u>3,616,465</u>     | <u>9</u>   | <u>3,669,033</u>     | <u>8</u>   |
| Other equity                 | <u>1,540,806</u>     | <u>4</u>   | <u>642,351</u>       | <u>1</u>   |
| Treasury shares              | -                    | -          | <u>(25,894)</u>      | -          |
| Total equity                 | <u>26,633,526</u>    | <u>69</u>  | <u>25,769,087</u>    | <u>60</u>  |
| TOTAL                        | <u>\$ 38,540,219</u> | <u>100</u> | <u>\$ 42,660,530</u> | <u>100</u> |

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

(Concluded)

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

|  | 2014              |            | 2013                |           |
|--|-------------------|------------|---------------------|-----------|
|  | Amount            | %          | Amount              | %         |
| OPERATING REVENUE (Notes 4 and 23)   | \$ 12,461,581     | 100        | \$ 14,427,628       | 100       |
| OPERATING COSTS (Notes 10, 14, 16 and 23)  | <u>11,542,526</u> | <u>93</u>  | <u>13,133,743</u>   | <u>91</u> |
| GROSS PROFIT   | <u>919,055</u>    | <u>7</u>   | <u>1,293,885</u>    | <u>9</u>  |
| OPERATING EXPENSES (Notes 14, 16 and 23)   |                   |            |                     |           |
| Selling and marketing expenses   | 154,728           | 1          | 121,963             | 1         |
| General and administrative expenses  | 702,895           | 6          | 589,765             | 4         |
| Research and development expenses  | <u>548,338</u>    | <u>4</u>   | <u>522,855</u>      | <u>4</u>  |
| Total operating expenses   | <u>1,405,961</u>  | <u>11</u>  | <u>1,234,583</u>    | <u>9</u>  |
| INCOME (LOSS) FROM OPERATIONS  | <u>(486,906)</u>  | <u>(4)</u> | <u>59,302</u>       | <u>-</u>  |
| NON-OPERATING INCOME AND EXPENSES  |                   |            |                     |           |
| Interest income (Notes 4 and 23)   | 29,115            | -          | 35,116              | -         |
| Royalty income (Notes 4 and 23)  | 30,716            | -          | 30,716              | -         |
| Other income (Note 4)  | 36,984            | -          | 95,592              | 1         |
| Interest expense (Note 12)   | (105,267)         | (1)        | (98,912)            | (1)       |
| Share of profit or loss of subsidiaries and associates                                 | 443,162           | 4          | (175,617)           | (1)       |
| Net gain on foreign currency exchange  | -                 | -          | 38,803              | -         |
| Net gain on fair value change of financial assets at fair value through profit or loss | 60,452            | 1          | 67,211              | 1         |
| Net loss on foreign currency exchange  | (30,971)          | -          | -                   | -         |
| Impairment loss (Notes 4, 5, 8 and 11)   | <u>(5,296)</u>    | <u>-</u>   | <u>(9,322)</u>      | <u>-</u>  |
| Total non-operating income and expenses  | <u>458,895</u>    | <u>4</u>   | <u>(16,413)</u>     | <u>-</u>  |
| INCOME (LOSS) BEFORE INCOME TAX  | (28,011)          | -          | 42,889              | -         |
| INCOME TAX BENEFIT (EXPENSE) (Notes 4 and 17)  | <u>41,487</u>     | <u>-</u>   | <u>(13,586)</u>     | <u>-</u>  |
| NET INCOME FOR THE YEAR  | <u>13,476</u>     | <u>-</u>   | <u>29,303</u>       | <u>-</u>  |
| OTHER COMPREHENSIVE INCOME   |                   |            |                     |           |
| Unrealized gain on available-for-sale financial assets                                 | 9,805             | -          | 151,866             | 1         |
| Actuarial loss arising from defined benefit plans (Notes 4 and 14)                     | (14,159)          | -          | (10,449)            | -         |
| Share of other comprehensive income of subsidiaries                                    | 941,398           | 8          | 987,944             | 7         |
| Income tax relating to components of other comprehensive income (Notes 4, 14 and 17)   | <u>2,407</u>      | <u>-</u>   | <u>1,776</u>        | <u>-</u>  |
| Other comprehensive income for the year, net of income tax                             | <u>939,451</u>    | <u>8</u>   | <u>1,131,137</u>    | <u>8</u>  |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR  | <u>\$ 952,927</u> | <u>8</u>   | <u>\$ 1,160,440</u> | <u>8</u>  |
| EARNINGS PER SHARE (Note 18)   |                   |            |                     |           |
| Basic  | <u>\$ 0.01</u>    |            | <u>\$ 0.03</u>      |           |

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

|  | Share Capital            |               | Capital Surplus | Legal Reserve |
|--|--------------------------|---------------|-----------------|---------------|
|  | Shares<br>(In Thousands) | Amount        |                 |               |
| BALANCE AT JANUARY 1, 2013   | 1,080,990                | \$ 10,809,897 | \$ 9,686,700    | \$ 1,055,476  |
| Special reserve under Rule No. 1010012865 issued by the FSC                          | -                        | -             | -               | -             |
| Special reserve  | -                        | -             | -               | -             |
| Net income for the year ended December 31, 2013                                      | -                        | -             | -               | -             |
| Other comprehensive income for the year ended December 31, 2013, net of income tax   | -                        | -             | -               | -             |
| Total comprehensive income for the year ended December 31, 2013                      | -                        | -             | -               | -             |
| Private issuance of ordinary shares for cash - July                                  | 60,000                   | 600,000       | 387,000         | -             |
| Change in equity from investments in associates accounted for by using equity method | -                        | -             | -               | -             |
| Partial acquisition of interests in subsidiaries                                     | -                        | -             | -               | -             |
| BALANCE AT DECEMBER 31, 2013   | 1,140,990                | 11,409,897    | 10,073,700      | 1,055,476     |
| Legal reserve  | -                        | -             | -               | 2,930         |
| Reversal of special reserve  | -                        | -             | -               | -             |
| Net income for the year ended December 31, 2014                                      | -                        | -             | -               | -             |
| Other comprehensive income for the year ended December 31, 2014, net of income tax   | -                        | -             | -               | -             |
| Total comprehensive income for the year ended December 31, 2014                      | -                        | -             | -               | -             |
| Retirement of treasury stock   | (522)                    | (5,220)       | (4,346)         | -             |
| Partial acquisition of interests in subsidiaries                                     | -                        | -             | 2,224           | -             |
| BALANCE AT DECEMBER 31, 2014   | 1,140,468                | \$ 11,404,677 | \$ 10,071,578   | \$ 1,058,406  |

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

| Retained Earnings |                         | Other Equity   |  |             | Treasury Shares | Total Equity |
|-------------------|-------------------------|--|--|-------------|-----------------|--------------|
| Special Reserve   | Unappropriated Earnings | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for- sale Financial Assets |             |                 |              |
| \$ 271,435        | \$ 2,528,246            | \$ (559,205)   | \$ 75,698  | \$ (25,894) | \$ 23,842,353   |              |
| 70,678            | (70,678)                | -  | -  | -           | -               |              |
| 141,394           | (141,394)               | -  | -  | -           | -               |              |
| -                 | 29,303                  | -  | -  | -           | 29,303          |              |
| -                 | 5,279                   | 620,774  | 505,084  | -           | 1,131,137       |              |
| -                 | 34,582                  | 620,774  | 505,084  | -           | 1,160,440       |              |
| -                 | -                       | -  | -  | -           | 987,000         |              |
| -                 | (25,705)                | -  | -  | -           | (25,705)        |              |
| -                 | (195,001)               | -  | -  | -           | (195,001)       |              |
| 483,507           | 2,130,050               | 61,569   | 580,782  | (25,894)    | 25,769,087      |              |
| -                 | (2,930)                 | -  | -  | -           | -               |              |
| (412,829)         | 412,829                 | -  | -  | -           | -               |              |
| -                 | 13,476                  | -  | -  | -           | 13,476          |              |
| -                 | 40,996                  | 1,020,437  | (121,982)  | -           | 939,451         |              |
| -                 | 54,472                  | 1,020,437  | (121,982)  | -           | 952,927         |              |
| -                 | (16,328)                | -  | -  | 25,894      | -               |              |
| -                 | (90,712)                | -  | -  | -           | (88,488)        |              |
| \$ 70,678         | \$ 2,487,381            | \$ 1,082,006   | \$ 458,800   | \$ -        | \$ 26,633,526   |              |

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

|  | 2014             | 2013               |
|--|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                  |                    |
| Income (loss) before income tax  | \$ (28,011)      | \$ 42,889          |
| Adjustments for:   |                  |                    |
| Depreciation expenses  | 267,555          | 257,580            |
| Amortization expenses  | 34,248           | 33,744             |
| Net gain on fair value change of financial assets at fair value through profit or loss | (60,452)         | (67,211)           |
| Interest expense   | 105,267          | 98,912             |
| Interest income  | (29,115)         | (35,116)           |
| Dividend income  | (18,976)         | (16,639)           |
| Share of profit or loss of subsidiaries and associates                                 | (443,162)        | 175,617            |
| Net gain on disposal of property, plant and equipment                                  | (2,946)          | -                  |
| Net gain on disposal of investments  | (359)            | -                  |
| Impairment loss recognized on financial assets   | 5,296            | -                  |
| Impairment loss recognized on non-financial assets                                     | -                | 9,322              |
| Write-down of inventories  | 312,000          | 77,000             |
| Unrealized net loss on foreign currency exchange                                       | 122,977          | 80,359             |
| Royalty income   | (30,716)         | (30,716)           |
| Changes in operating assets and liabilities  |                  |                    |
| Accounts receivable  | (188,803)        | 209,299            |
| Accounts receivable from related parties   | 4,172,964        | 406,482            |
| Inventories  | 160,848          | (829,514)          |
| Prepayments  | 2,740            | (32,106)           |
| Other current assets   | (722)            | (31,077)           |
| Accounts payable   | (745,670)        | (1,246,661)        |
| Accounts payable to related parties  | (3,702,396)      | (943,015)          |
| Other payables   | 60,412           | (61,942)           |
| Receipts in advance  | (115,500)        | 200,969            |
| Other current liabilities  | (4,812)          | 16,176             |
| Cash used in operations  | (127,333)        | (1,685,648)        |
| Income tax paid  | (27,341)         | (203,992)          |
| Net cash used in operating activities  | <u>(154,674)</u> | <u>(1,889,640)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                  |                    |
| Proceeds on sale of financial assets at fair value through profit or loss              | 1,500,000        | -                  |
| Purchase of available-for-sale financial assets  | (28,120)         | -                  |
| Proceeds on sale of available-for-sale financial assets                                | 2,809            | -                  |
| Purchase of debt investments with no active market                                     | (1,500,000)      | -                  |
| Proceeds on sale of debt investments with no active market                             | -                | 885,720            |
| Proceeds from redemption of debt investments with no active market                     | 300,000          | -                  |
| Payments for property, plant and equipment   | (121,576)        | (823,913)          |
| Proceeds from disposal of property, plant and equipment                                | 3,592            | -                  |
| Decrease in other receivables from related parties                                     | 797,240          | 1,234,133          |
| Payments for intangible assets   | (80,046)         | (22,888)           |
| Decrease (increase) in other non-current assets  | 367              | (1,953)            |
| Interest received  | 18,371           | 34,989             |
| Dividend received  | 51,040           | 33,368             |
| Net cash generated from investing activities   | <u>943,677</u>   | <u>1,339,456</u>   |

(Continued)



|  | 2014               | 2013                |
|--|--------------------|---------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES                   |                    |                     |
| Increase (decrease) in short-term borrowings           | \$ 982,015         | \$ (1,242,000)      |
| Proceeds from long-term borrowings                     | -                  | 1,200,000           |
| Repayments of long-term borrowings                     | (1,769,542)        | (1,769,542)         |
| Increase in other payables to related parties          | 444                | -                   |
| Increase (decrease) in other non-current liabilities   | 1,712              | (2)                 |
| Proceeds from issuance of ordinary shares              | -                  | 987,000             |
| Payments for acquisition of interests in subsidiaries  | (873,908)          | (7,024)             |
| Interest paid  | (105,818)          | (106,303)           |
|  | <u>(1,765,097)</u> | <u>(937,871)</u>    |
| Net cash used in financing activities                  |                    |                     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS              | (976,094)          | (1,488,055)         |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>1,767,590</u>   | <u>3,255,645</u>    |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR       | <u>\$ 791,496</u>  | <u>\$ 1,767,590</u> |

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

(Concluded)

# E Ink Holdings Inc. and Subsidiaries

Consolidated Financial Statements for the  
Years Ended December 31, 2014 and 2013 and  
Independent Auditors' Report

## CONTENTS

---

|    |   |
|----|---|
| 39 | INDEPENDENT AUDITORS' REPORT                    |
| 40 | CONSOLIDATED BALANCE SHEETS                     |
| 42 | CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME |
| 44 | CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY    |
| 46 | CONSOLIDATED STATEMENTS OF CASH FLOWS           |

# 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 subsidiaries (the "Corporation") as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. 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, 2013. The investments amounted to NT\$175,316 thousand as of December 31, 2013, which accounted for about 0.4% of the Corporation's total assets as of the above date. The Corporation's equity of NT\$12,577 thousand in their comprehensive income in 2013 were about 1.2% of the Corporation's total comprehensive income. 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 Regulations Governing Auditing and Attestation 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 subsidiaries as of December 31, 2014 and 2013, and the consolidated financial performance and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance translated by Accounting Research and Development Foundation endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of E Ink Holdings Inc. as of and for the years ended December 31, 2014 and 2013 on which we have issued an unqualified and a modified unqualified opinion, respectively.

March 13, 2015

## Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance 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 independent 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 independent auditors' report and consolidated financial statements shall prevail.*

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

| ASSETS   | 2014                 |            | 2013                 |            |
|--|----------------------|------------|----------------------|------------|
|  | Amount               | %          | Amount               | %          |
| <b>CURRENT ASSETS</b>  |                      |            |                      |            |
| Cash and cash equivalents (Notes 4 and 6)                                  | \$ 8,124,294         | 21         | \$ 4,664,263         | 12         |
| Financial assets at fair value through profit or loss (Notes 4, 7 and 28)  | 173,358              | -          | 1,586,260            | 4          |
| Debt investments with no active market (Notes 4 and 10)                    | 600,000              | 2          | -                    | -          |
| Notes and accounts receivable (Notes 4 and 11)                             | 2,391,938            | 6          | 3,499,785            | 9          |
| Accounts receivable from related parties (Notes 4 and 27)                  | 64,162               | -          | 27,776               | -          |
| Other receivables (Notes 4 and 9)  | 1,397,268            | 4          | 191,023              | -          |
| Current tax assets (Notes 4 and 20)  | 637,923              | 2          | 131,833              | -          |
| Inventories (Notes 4 and 12)   | 1,989,398            | 5          | 3,197,831            | 8          |
| Prepayments  | 305,555              | 1          | 306,778              | 1          |
| Other current assets (Note 28)   | 198,357              | -          | 610,895              | 1          |
| <b>Total current assets</b>  | <b>15,882,253</b>    | <b>41</b>  | <b>14,216,444</b>    | <b>35</b>  |
| <b>NON-CURRENT ASSETS</b>  |                      |            |                      |            |
| Financial assets at fair value through profit or loss (Notes 4 and 7)      | 282,799              | 1          | 259,929              | 1          |
| Available-for-sale financial assets (Notes 4 and 8)                        | 2,043,268            | 5          | 2,044,551            | 5          |
| Financial assets measured at cost (Notes 4 and 9)                          | 125,924              | -          | 2,833,107            | 7          |
| Debt investments with no active market (Notes 4 and 10)                    | 600,000              | 1          | -                    | -          |
| Investments accounted for using equity method (Notes 4 and 9)              | 49,745               | -          | 237,271              | 1          |
| Property, plant and equipment (Notes 4 and 13)                             | 9,041,082            | 23         | 9,835,142            | 24         |
| Goodwill (Notes 4 and 14)  | 6,858,206            | 18         | 6,761,078            | 17         |
| Other intangible assets (Notes 4 and 14)                                   | 2,817,788            | 7          | 3,036,726            | 8          |
| Deferred tax assets (Notes 4 and 20)                                       | 1,023,992            | 3          | 604,725              | 1          |
| Other non-current assets (Notes 27 and 28)                                 | 228,795              | 1          | 256,122              | 1          |
| <b>Total non-current assets</b>  | <b>23,071,599</b>    | <b>59</b>  | <b>25,868,651</b>    | <b>65</b>  |
| <b>TOTAL</b>   | <b>\$ 38,953,852</b> | <b>100</b> | <b>\$ 40,085,095</b> | <b>100</b> |
| <b>LIABILITIES AND EQUITY</b>  |                      |            |                      |            |
| <b>CURRENT LIABILITIES</b>   |                      |            |                      |            |
| Short-term borrowings (Note 15)  | \$ 1,796,975         | 5          | \$ 894,150           | 2          |
| Accounts payable   | 1,508,379            | 4          | 2,478,235            | 6          |
| Accounts payable to related parties (Note 27)                              | 38,106               | -          | 66,420               | -          |
| Other payables (Note 16)   | 1,272,817            | 3          | 1,416,847            | 4          |
| Current tax liabilities (Notes 4 and 20)                                   | 112,455              | -          | 38,074               | -          |
| Receipts in advance  | 878,721              | 2          | 992,165              | 3          |
| Current portion of long-term borrowings (Note 15)                          | 2,894,548            | 7          | 2,419,308            | 6          |
| Current portion of long-term payables to related parties (Notes 15 and 27) | -                    | -          | 118,171              | -          |
| Other current liabilities  | 610,823              | 2          | 138,201              | -          |
| <b>Total current liabilities</b>   | <b>9,112,824</b>     | <b>23</b>  | <b>8,561,571</b>     | <b>21</b>  |
| <b>NON-CURRENT LIABILITIES</b>   |                      |            |                      |            |
| Long-term borrowings (Note 15)   | 2,566,020            | 7          | 4,877,848            | 12         |
| Long-term payables to related parties (Notes 15 and 27)                    | -                    | -          | 452,360              | 1          |
| Accrued pension liabilities (Notes 4 and 17)                               | 422,643              | 1          | 397,056              | 1          |
| Other non-current liabilities (Notes 4, 15 and 20)                         | 339,363              | 1          | 244,145              | 1          |
| <b>Total non-current liabilities</b>                                       | <b>3,328,026</b>     | <b>9</b>   | <b>5,971,409</b>     | <b>15</b>  |
| <b>Total liabilities</b>   | <b>12,440,850</b>    | <b>32</b>  | <b>14,532,980</b>    | <b>36</b>  |

(Continued)

| ASSETS  | 2014          |     | 2013          |     |
|---|---------------|-----|---------------|-----|
|   | Amount        | %   | Amount        | %   |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION<br>(Notes 17, 18, 22 and 23) |               |     |               |     |
| Share capital   | \$ 11,404,677 | 29  | \$ 11,409,897 | 28  |
| Capital surplus   | 10,071,578    | 26  | 10,073,700    | 25  |
| Retained earnings   |               |     |               |     |
| Legal reserve   | 1,058,406     | 3   | 1,055,476     | 3   |
| Special reserve   | 70,678        | -   | 483,507       | 1   |
| Unappropriated earnings   | 2,487,381     | 6   | 2,130,050     | 5   |
| Total retained earnings   | 3,616,465     | 9   | 3,669,033     | 9   |
| Other equity  | 1,540,806     | 4   | 642,351       | 2   |
| Treasury shares   | -             | -   | (25,894)      | -   |
| Total equity attributable to owners of the Corporation                        | 26,633,526    | 68  | 25,769,087    | 64  |
| NON-CONTROLLING INTERESTS (Notes 18 and 23)                                   | (120,524)     | -   | (216,972)     | -   |
| Total equity  | 26,513,002    | 68  | 25,552,115    | 64  |
| TOTAL   | \$ 38,953,852 | 100 | \$ 40,085,095 | 100 |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

(Concluded)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

|  | 2014               |             | 2013               |            |
|--|--------------------|-------------|--------------------|------------|
|  | Amount             | %           | Amount             | %          |
| OPERATING REVENUE (Notes 4 and 27)   | \$ 14,571,205      | 100         | \$ 18,905,129      | 100        |
| OPERATING COSTS (Notes 12, 17, 19 and 27)  | <u>13,000,451</u>  | <u>89</u>   | <u>15,886,448</u>  | <u>84</u>  |
| GROSS PROFIT   | <u>1,570,754</u>   | <u>11</u>   | <u>3,018,681</u>   | <u>16</u>  |
| OPERATING EXPENSES (Notes 17, 19 and 27)   |                    |             |                    |            |
| Selling and marketing expenses   | 576,458            | 4           | 453,723            | 3          |
| General and administrative expenses  | 2,482,941          | 17          | 2,641,962          | 14         |
| Research and development expenses  | <u>1,746,266</u>   | <u>12</u>   | <u>1,571,313</u>   | <u>8</u>   |
| Total operating expenses   | <u>4,805,665</u>   | <u>33</u>   | <u>4,666,998</u>   | <u>25</u>  |
| LOSS FROM OPERATIONS   | <u>(3,234,911)</u> | <u>(22)</u> | <u>(1,648,317)</u> | <u>(9)</u> |
| NON-OPERATING INCOME AND EXPENSES  |                    |             |                    |            |
| Interest income (Note 4)   | 148,145            | 1           | 152,255            | 1          |
| Royalty income (Note 4)  | 3,561,145          | 24          | 1,610,262          | 9          |
| Dividend income (Notes 4 and 27)   | 86,019             | 1           | 62,161             | -          |
| Other income (Note 27)   | 244,618            | 2           | 255,609            | 1          |
| Interest expense (Note 13)   | (153,031)          | (1)         | (176,668)          | (1)        |
| Net gain on foreign currency exchange  | 76,927             | -           | 142,446            | 1          |
| Loss on disposal of investments (Note 9)   | (892,569)          | (6)         | -                  | -          |
| Impairment loss (Notes 4, 5, 9, 13 and 14)   | (120,389)          | (1)         | (59,212)           | -          |
| Other expenses (Note 17)   | <u>(37,709)</u>    | <u>-</u>    | <u>(550,026)</u>   | <u>(3)</u> |
| Total non-operating income and expenses  | <u>2,913,156</u>   | <u>20</u>   | <u>1,436,827</u>   | <u>8</u>   |
| LOSS BEFORE INCOME TAX   | (321,755)          | (2)         | (211,490)          | (1)        |
| INCOME TAX BENEFIT (Notes 4 and 20)  | <u>375,964</u>     | <u>2</u>    | <u>175,481</u>     | <u>1</u>   |
| NET INCOME (LOSS) FOR THE YEAR   | <u>54,209</u>      | <u>-</u>    | <u>(36,009)</u>    | <u>-</u>   |
| OTHER COMPREHENSIVE INCOME   |                    |             |                    |            |
| Exchange differences on translating foreign operations                               | 1,014,257          | 7           | 607,206            | 3          |
| Unrealized gain (loss) on available-for-sale financial assets                        | (121,982)          | (1)         | 505,084            | 3          |
| Actuarial gain arising from defined benefit plans (Notes 4 and 17)                   | 41,523             | 1           | 8,405              | -          |
| Share of other comprehensive loss of associates                                      | (1,931)            | -           | (4,588)            | -          |
| Income tax relating to components of other comprehensive income (Notes 4, 17 and 20) | <u>2,407</u>       | <u>-</u>    | <u>1,776</u>       | <u>-</u>   |
| Other comprehensive income for the year, net of income tax                           | <u>934,274</u>     | <u>7</u>    | <u>1,117,883</u>   | <u>6</u>   |

(Continued)



|  | 2014              |          | 2013                |          |
|--|-------------------|----------|---------------------|----------|
|  | Amount            | %        | Amount              | %        |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR            | <u>\$ 988,483</u> | <u>7</u> | <u>\$ 1,081,874</u> | <u>6</u> |
| NET INCOME (LOSS) ATTRIBUTABLE TO:                 |                   |          |                     |          |
| Owners of the Corporation                          | \$ 13,476         | -        | \$ 29,303           | -        |
| Non-controlling interests                          | <u>40,733</u>     | <u>-</u> | <u>(65,312)</u>     | <u>-</u> |
|  | <u>\$ 54,209</u>  | <u>-</u> | <u>\$ (36,009)</u>  | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: |                   |          |                     |          |
| Owners of the Corporation                          | \$ 952,927        | 7        | \$ 1,160,440        | 6        |
| Non-controlling interests                          | <u>35,556</u>     | <u>-</u> | <u>(78,566)</u>     | <u>-</u> |
|  | <u>\$ 988,483</u> | <u>7</u> | <u>\$ 1,081,874</u> | <u>6</u> |
| EARNINGS PER SHARE (Note 21)                       |                   |          |                     |          |
| Basic  | <u>\$ 0.01</u>    |          | <u>\$ 0.03</u>      |          |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

(Concluded)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

|   | Equity Attributable to Owners of the Corporation |               |                 |                   |                 |                            |
|---|--|---------------|-----------------|-------------------|-----------------|----------------------------|
|   | Share Capital                                    |               | Capital Surplus | Retained Earnings |                 |                            |
|   | Shares<br>(In Thousands)                         | Amount        |                 | Legal Reserve     | Special Reserve | Unappropriated<br>Earnings |
| BALANCE AT JANUARY 1, 2013  | 1,080,990  | \$ 10,809,897 | \$ 9,686,700    | \$ 1,055,476      | \$ 271,435      | \$ 2,528,246               |
| Special reserve under Rule No. 1010012865 issued by the FSC                               | -  | -             | -               | -                 | 70,678          | (70,678)                   |
| Special reserve   | -  | -             | -               | -                 | 141,394         | (141,394)                  |
| Net income (loss) for the year ended December 31, 2013                                    | -  | -             | -               | -                 | -               | 29,303                     |
| Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax | -  | -             | -               | -                 | -               | 5,279                      |
| Total comprehensive income (loss) for the year ended December 31, 2013                    | -  | -             | -               | -                 | -               | 34,582                     |
| Private issuance of ordinary shares for cash - July                                       | 60,000   | 600,000       | 387,000         | -                 | -               | -                          |
| Change in equity from investments in associates accounted for by using equity method      | -  | -             | -               | -                 | -               | (25,705)                   |
| Partial acquisition of interests in subsidiaries  | -  | -             | -               | -                 | -               | (195,001)                  |
| BALANCE AT DECEMBER 31, 2013  | 1,140,990  | 11,409,897    | 10,073,700      | 1,055,476         | 483,507         | 2,130,050                  |
| Legal reserve   | -  | -             | -               | 2,930             | -               | (2,930)                    |
| Reversal of special reserve   | -  | -             | -               | -                 | (412,829)       | 412,829                    |
| Net income for the year ended December 31, 2014   | -  | -             | -               | -                 | -               | 13,476                     |
| Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax | -  | -             | -               | -                 | -               | 40,996                     |
| Total comprehensive income for the year ended December 31, 2014                           | -  | -             | -               | -                 | -               | 54,472                     |
| Retirement of treasury stock  | (522)  | (5,220)       | (4,346)         | -                 | -               | (16,328)                   |
| Partial acquisition of interests in subsidiaries  | -  | -             | 2,224           | -                 | -               | (90,712)                   |
| BALANCE AT DECEMBER 31, 2014  | 1,140,468  | \$ 11,404,677 | \$ 10,071,578   | \$ 1,058,406      | \$ 70,678       | \$ 2,487,381               |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

| Other Equity   |   | Treasury Shares | Total                | Non-controlling Interests | Total Equity         |
|--|---|-----------------|----------------------|---------------------------|----------------------|
| Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets |                 |                      |                           |                      |
| \$ (559,205)   | \$ 75,698   | \$ (25,894)     | \$ 23,842,353        | \$ (59,709)               | \$ 23,782,644        |
| -  | -   | -               | -                    | -                         | -                    |
| -  | -   | -               | -                    | -                         | -                    |
| -  | -   | -               | 29,303               | (65,312)                  | (36,009)             |
| <u>620,774</u>   | <u>505,084</u>  | <u>-</u>        | <u>1,131,137</u>     | <u>(13,254)</u>           | <u>1,117,883</u>     |
| <u>620,774</u>   | <u>505,084</u>  | <u>-</u>        | <u>1,160,440</u>     | <u>(78,566)</u>           | <u>1,081,874</u>     |
| -  | -   | -               | 987,000              | -                         | 987,000              |
| -  | -   | -               | (25,705)             | -                         | (25,705)             |
| <u>-</u>   | <u>-</u>  | <u>-</u>        | <u>(195,001)</u>     | <u>(78,697)</u>           | <u>(273,698)</u>     |
| 61,569   | 580,782   | (25,894)        | 25,769,087           | (216,972)                 | 25,552,115           |
| -  | -   | -               | -                    | -                         | -                    |
| -  | -   | -               | -                    | -                         | -                    |
| -  | -   | -               | 13,476               | 40,733                    | 54,209               |
| <u>1,020,437</u>                                       | <u>(121,982)</u>  | <u>-</u>        | <u>939,451</u>       | <u>(5,177)</u>            | <u>934,274</u>       |
| <u>1,020,437</u>                                       | <u>(121,982)</u>  | <u>-</u>        | <u>952,927</u>       | <u>35,556</u>             | <u>988,483</u>       |
| -  | -   | 25,894          | -                    | -                         | -                    |
| <u>-</u>   | <u>-</u>  | <u>-</u>        | <u>(88,488)</u>      | <u>60,892</u>             | <u>(27,596)</u>      |
| <u>\$ 1,082,006</u>                                    | <u>\$ 458,800</u>   | <u>\$ -</u>     | <u>\$ 26,633,526</u> | <u>\$ (120,524)</u>       | <u>\$ 26,513,002</u> |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

|   | 2014             | 2013             |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                  |
| Loss before income tax  | \$ (321,755)     | \$ (211,490)     |
| Adjustments for:  |                  |                  |
| Depreciation expenses   | 1,529,110        | 1,597,401        |
| Amortization expenses   | 433,575          | 460,916          |
| Impairment loss recognized (reversal of impairment loss) on notes and accounts receivable | 1,773            | (10,063)         |
| Net gain on fair value change of financial assets at fair value through profit or loss    | (67,472)         | (69,337)         |
| Interest expense  | 153,031          | 176,668          |
| Interest income   | (148,145)        | (152,255)        |
| Dividend income   | (86,019)         | (62,161)         |
| Share of profit or loss of associates   | 9,998            | (1,105)          |
| Net loss (gain) on disposal of property, plant and equipment                              | (248)            | 13,428           |
| Net loss (gain) on disposal of investments  | 892,569          | (10,312)         |
| Impairment loss recognized on financial assets  | 5,296            | -                |
| Impairment loss recognized on non-financial assets  | 115,093          | 59,212           |
| Write-down (reversal) of inventories  | 373,095          | (779,069)        |
| Unrealized net loss on foreign currency exchange  | 108,250          | 27,317           |
| Changes in operating assets and liabilities   |                  |                  |
| Financial assets held for trading   | (26,000)         | 81,000           |
| Notes and accounts receivable   | 1,238,140        | 3,403,086        |
| Accounts receivable from related parties  | (36,386)         | 15,678           |
| Other receivables   | (100,859)        | (95,569)         |
| Inventories   | 1,001,440        | 1,101,181        |
| Prepayments   | 14,167           | 221,374          |
| Other current assets  | 430,291          | 223,219          |
| Accounts payable  | (1,011,606)      | (2,743,718)      |
| Accounts payable to related parties   | (28,314)         | 42,492           |
| Other payables  | (107,530)        | (168,102)        |
| Receipts in advance   | (252,914)        | 258,976          |
| Other current liabilities   | 476,266          | 6,314            |
| Accrued pension liabilities   | 57,674           | (377,044)        |
| Cash generated from operations  | 4,652,520        | 3,008,037        |
| Income tax paid   | (451,057)        | (85,250)         |
| Net cash generated from operating activities  | <u>4,201,463</u> | <u>2,922,787</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                  |                  |
| Proceeds on sale of financial assets at fair value through profit or loss                 | 1,500,000        | -                |
| Purchase of available-for-sale financial assets   | (67,729)         | -                |
| Proceeds on sale of available-for-sale financial assets                                   | 3,440            | -                |
| Purchase of debt investments with no active market  | (1,500,000)      | -                |
| Proceeds from redemption of debt investments with no active market                        | 300,000          | -                |
| Proceeds on sale of financial assets measured at cost                                     | 849,182          | -                |
| Proceeds on sale of associates  | 84,918           | -                |
| Payments for acquisition of associates  | -                | (4,302)          |
| Payments for property, plant and equipment  | (552,611)        | (1,095,298)      |
| Proceeds from disposal of property, plant and equipment                                   | 9,911            | 15,946           |

(Continued)

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| Payments for intangible assets  | \$ (131,224)        | \$ (32,273)         |
| Decrease in other financial assets  | -                   | 45,752              |
| Decrease in other non-current assets  | 19,662              | 38,737              |
| Interest received   | 129,901             | 154,262             |
| Dividend received   | 86,019              | 62,161              |
| Net cash generated from (used in) investing activities  | <u>731,469</u>      | <u>(815,015)</u>    |
| CASH FLOWS FROM FINANCING ACTIVITIES  |                     |                     |
| Increase (decrease) in short-term borrowings  | 862,078             | (3,012,590)         |
| Repayments of bonds payable   | -                   | (624,938)           |
| Proceeds from long-term borrowings  | -                   | 1,200,000           |
| Repayments of long-term borrowings  | (2,556,966)         | (2,617,975)         |
| Increase (decrease) in other non-current liabilities  | 70,616              | (43,164)            |
| Proceeds from issuance of ordinary shares   | -                   | 987,000             |
| Interest paid   | (146,074)           | (197,834)           |
| Changes in non-controlling interests  | <u>(27,596)</u>     | <u>(168,769)</u>    |
| Net cash used in financing activities   | <u>(1,797,942)</u>  | <u>(4,478,270)</u>  |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | <u>325,041</u>      | <u>144,399</u>      |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | 3,460,031           | (2,226,099)         |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR  | <u>4,664,263</u>    | <u>6,890,362</u>    |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR  | <u>\$ 8,124,294</u> | <u>\$ 4,664,263</u> |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 13, 2015)

(Concluded)

**Eink** | E Ink Holdings Inc.

No.3, Lixing 1st Rd., Hsinchu Science Park, Hsinchu 300, Taiwan

Tel: 886 3 5643200 Fax: 886 3 5788339

<http://www.einkgroup.com>

Copyrights of some images used in this report belong to Amazon、Kobo、Sony、Vikaura、Visionect and Yota Devices.

"JoAn" is a registered trademark of Visionect. "Kindle Paperwhite" is a registered trademark of Amazon.com, Inc. "Kobo Aura HD" is a registered trademark of Rakuten Kobo Inc.

"SmartBand Talk" is a registered trademark of Sony. "Vikaura" is a registered trademark of Vikaura. "YotaPhone" is a registered trademark of Yota Devices.