E INK HOLDINGS INC.
2016 Annual Report

- Taiwan Stock Exchange Market Observation Post System (Also known as MOPS): http://mops.twse.com.tw
- EIH annual report is available at http://www.einkgroup.com
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■ STOCK LISTING

The company's common stock is listed on the Taiwan's OTC/TPEX Securities Market. (Ticker: 8069)
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■ NAME OF INTERNATIONAL PUBLIC SECURITIES EXCHANGES AND HOW TO GET INFORMATION ABOUT SECURITIES TRADED THERE

Trading house: Luxembourg Stock Exchange
Inquiry method: Bloomberg
Website http://www.bourse.lu/

COMPANY MILESTONES

Date of Establishment: June 16th, 1992

Milestones in the Company's History:

Sept 2000 : Monthly capacity reached 18,000 substrates.
Oct 2000 : Securities & Futures Information Center issued authorization for public offering.
Sept 2001 : Expanded its monthly capacity to 36,000 substrates.
Oct 2001 : Obtained ISO 9001 certification.
Apr 2002 : Taiwan's Investment Commission approved set up of Transcend Optronics (Yangzhou) Co Ltd, the company's PRC subsidiary, through a third region investment entity.
Jul 2002 : Obtained 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(TPEX/OTC) 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 1st treasury stock repurchase and retired 296,000 issued shares.
Oct 2006 : Established US subsidiary to expand sales network in the America.
May 2007 : Signed a technology and patent licensing agreement with Company A.
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 on December 23rd, 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.
Jun 2010 : Changed English name of the company to "E Ink Holdings Inc.".
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 4th IDTechEx, USA.
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.
Mar 2011 : The Company's Board of Directors passed a resolution for a second treasury stock repurchase to be used for employee incentive programs.
May 2011 : The E Ink Triton™ EPD was awarded by the SID as the Best Display Component of Year 2011.
May 2011 : The Company decided that divisions without operational control power but with an investment purpose of our subsidiary Yong Yu Investment Co., Ltd. will be spun off and be incorporated in newly established Kai Yu Investment Co., Ltd., in order to strengthen allocation efficiency of labor in the management of this subsidiary, and improve its return on investment.
Jul 2011 : Partnered with Chunghwa Picture Tubes Ltd.by subscribing to the unsecured convertible bonds from its non-public offering with amount NT$1.5B 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.
Oct 2011 : Subscribed to newly issued Hydis corporate bonds amounting to US$30,500,000 to strengthen Hydis' financial healthy and structure and enrich the capital required for its operations.
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 Company B.
Oct 2012 : E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with Company C.
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 Company D.
Jan 2013 : E Ink Holdings Inc. bought facilities and equipment 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 : The Company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with Company E.
Apr 2014 : The Company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with Company F.
Jun 2014 : The E Ink Spectra™ three-pigment EPD won the 17th 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 programmable color and pattern EPD technology: E Ink Prism™.
Aug 2015 : Won the "Best Technology Award at the 14th Gold Panel Awards organized" by the Taiwan Display Union Association for the wireless power transfer (WPT) electronic paper display (EPD).
Dec 2015 : Subsidiary Hydis Technologies Co., Ltd. in South Korea signed the patent mutual licensing agreement with Company G.
Apr 2016 : E Ink Spectra Tri-colored e-paper display received Silver Award of Taiwan Excellence from Ministry of Economic Affairs, ROC.
May 2016 : ACeP(Advanced Colorful e-Paper) won the "Best in Show 2016" by SID(Society of Information Display)
July 2016 : Two 100% owned subsidiaries YYI & KYI completed the cash merger for the integration.
Sept 2016 : The Company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with Company H.
Nov 2016 : The Company signed a strategic alliance agreement with Company I.
Dec 2016 : The Company received "Green Electric Power Gratitude Award" from Ministry of Economic Affairs, ROC.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

Below are some highlights of E Ink Holdings' 2016 business report and few operational highlights for the year 2017.

2016 Business Report

The global economy in 2016 saw fluctuation with the volatile global politics. Despite of economic instability, the Company has continued to focus on the goal of constant profitability through enhancing operational efficiency and focusing on product development and applications. Under consolidated efforts of our colleagues, the Company has shown constant improvement in operational performance. In 2016, E Ink had a combined revenue of NT$ 14.01 billion, a gross profit of NT$ 5.12 billion with a gross profit margin of 36% and a net income after tax of NT$ 1.91 billion. The earnings per share (EPS) for 2016 were NT$1.69.

In 2016, the Company has withdrawn from LCD business and focused on the development and manufacturing of electronic paper displays (EPD). The demand for e-Readers remains stable. Besides top-selling 6-inch EPD, our customers have been gradually shifted their product design to larger-sizes and adding functionalities that enhance reading experiences. This has been a stable revenue source.

Electronic Shelf Labels (ESL) is another major product line which performed very well in 2016. The Company received requests from global customers to deploy ESL in their systems. The luggage eTag, which has spent years in development, has been introduced into the market, and has become a growth driver for ePaper. The accumulated shipments of eTag and ESL have reached over 100 million units.

The Company continues to invest in research and development of EPD to improve the technology and further product development. At SID 2016, the Company demonstrated Advanced Color ePaper (ACeP), a full-color EPD using color particles rather than a color filter array. This technology has been under development for years, and its rich and abundant color saturation received favorable reviews, and it was awarded the Best in Show award 2016 at SID.

The Company is aggressively developing large-sized EPD and new products applying the E Ink Mobius™ flexible display. At Touch Taiwan 2016, the Company demonstrated flexible and large sized EPD, including the 42-inch and curved 32-inch ePaper signage. In addition, E Ink Spectra™ 3-color EPD and E Ink Prism™ have received the Silver Award of Taiwan Excellence and best design award from SEGD and NeoCon, respectively. Those products and markets have the potential for high growth in the coming years.

As EPDs are becoming increasingly adopted in eTag, mobile devices, digital signage, and architecture, the Company has been making efforts in development kits for these applications. The goal is to allow product developers who are interested in ePaper applications to access to and apply ePaper modules into their products for testing. This helps potential customers to examine the feasibility to apply EPD in certain products. Meanwhile, the Company has been actively engaged in developing cooperative plans with strategic partners. The goal is to integrate cross-field, and with both upstream and downstream supply chain resources, to expand the EPD ecosystem. This will provide customers with improved and diversified design options.

Operation Highlights in 2017

With the foundation established in the past few years, the Company will be continuously focusing on the core technology of ePaper and carry on those projects in operational management. The Company will continue to develop cooperative projects with strategic partners to expand the ePaper market and enable growth for new product applications. To achieve our objectives, we will implement the following operational strategies in 2017:

(1) Establish sales- and applications-oriented operational models.

To provide competitive and diversified products, the Company will establish sales-and applications-oriented operational models. We have specific R&D and product development teams for different product applications. We also set up direct product lines and reserved areas for manufacturing to enhance resource allocation efficiency and to enhance values for customers.

(2) Concentrate on ePaper products and continue promoting new products and applications.

In addition to improving products for eReaders and ESLs, the Company will be actively engaged in developing the applications of eTag, eNote, digital signage, architectural materials, and other high value-added products. In 2017, we will expand cooperation with brand customers, system integrators, channels, partners, architects and designers, to expand market reach.

(3) Reinforce pre-sales and technical support

To expand diversified ePaper applications, the Company will invest more resources in pre-sales and technical support to effectively align ePaper technology and product with the customer needs, to create better user value and contribute to market expansion.

(4) Continue to establish the EPD ecosystem

The Company has been forming strategic alliances with upstream suppliers and downstream customers, as well as with peripheral industry players. We have also carried out technical cooperation with key component providers to establish a solid EPD ecosystem so as to enhance the profit-making capabilities. In addition, the Company expands its alliance with strategic customers to create ePaper markets and applications together.

Prospect

The Company is optimistic about the wide applications of ePaper products in eReader, mobile devices, signage and IoT-related markets, due to ePaper's unique characteristics such as ultra-low power consumption, lightweight, flexible, and sunlight readable. In a new era of environmentally conscious consumers, energy saving products are highly attractive, and product designers are looking for ways to deploy services that deliver information that does not require energy infrastructure improvements. EPD based products have a distinct advantage over other competing options.

In 2017, the Company will strive to improve operational efficiency and allocate more R&D resources. We will continue our efforts in product and technology innovation to create greater value for our customers. With strong support from our team, suppliers, customers, and partners, we believe that we will be able to keep on growing and making profits under the foundation that we have established.

Chairman & CEO

FINANCIAL HIGHLIGHTS

Condensed Balance Sheet

Unconsolidated

Unit: NT$ thousands

Item		2012	2013	2014	2015	2016	31/03/2017
Current Assets		13,944,015	12,999,748	7,906,308	5,719,032	5,811,675	Not applicable
Property, plant and equipment		1,498,249	2,064,620	1,994,224	1,770,660	1,511,731	
Intangible assets		49,790	45,038	106,479	123,694	198,165	
Other Assets		29,132,178	27,551,124	28,533,208	25,598,659	25,291,037	
Total Assets		44,624,232	42,660,530	38,540,219	33,212,045	32,812,608	
Current Liabilities	Before Distribution	16,235,979	12,957,305	10,039,589	6,507,735	5,666,215	
	After Distribution	16,235,979	12,957,305	10,039,589	6,507,735	(Note)	
Noncurrent Liabilities		4,545,900	3,934,138	1,867,104	24,499	56,378	
Total Liabilities	Before Distribution	20,781,879	16,891,443	11,906,693	6,532,234	5,722,593	
	After Distribution	20,781,879	16,891,443	11,906,693	6,532,234	(Note)	
Equity Attributable to Shareholders of the Parent		23,842,353	25,769,087	26,633,526	26,679,811	27,090,015	
Capital Stock		10,809,897	11,409,897	11,404,677	11,404,677	11,404,677	
Capital Surplus		9,686,700	10,073,700	10,071,578	10,071,578	10,071,683	
Retained Earnings	Before Distribution	3,855,157	3,669,033	3,616,465	4,122,865	5,485,499	
	After Distribution	3,855,157	3,669,033	3,616,465	4,122,865	(Note)	
Other equity		(483,507)	642,351	1,540,806	1,080,691	488,620	
Treasury shares		(25,894)	(25,894)	-	-	(360,464)	
Total Equity	Before Distribution	23,842,353	25,769,087	26,633,526	26,679,811	27,090,015	
	After Distribution	23,842,353	25,769,087	26,633,526	26,679,811	(Note)	

Note: It depends on shareholders' meeting resolution.

Consolidated

Unit: NT$ thousands

Item		2012	2013	2014	2015	2016	2017/03/31
Current Assets		18,520,690	14,216,444	15,882,253	13,730,805	14,707,222	14,684,749
Property, plant and equipment		10,194,178	9,835,142	9,041,082	6,497,167	5,319,822	4,953,732
Intangible assets		10,267,299	9,797,804	9,675,994	9,461,830	9,178,475	8,917,661
Other Assets		6,933,453	6,235,705	4,354,523	3,735,424	4,208,044	4,969,544
Total Assets		45,915,620	40,085,095	38,953,852	33,425,226	33,413,563	33,525,686
Current Liabilities	Before Distribution	14,945,285	8,561,571	9,112,824	6,036,805	5,143,950	5,507,793
	After Distribution	14,945,285	8,561,571	9,112,824	6,572,825	(Note)	(Note)
Noncurrent Liabilities		7,187,691	5,971,409	3,328,026	804,891	1,180,474	1,413,252
Total Liabilities	Before Distribution	22,132,976	14,532,980	12,440,850	6,841,696	6,324,424	6,921,045
	After Distribution	22,132,976	14,532,980	12,440,850	7,377,716	(Note)	(Note)
Equity Attributable to Shareholders of the Parent		23,842,353	25,769,087	26,633,526	26,679,811	27,090,015	26,595,986
Capital Stock		10,809,897	11,409,897	11,404,677	11,404,677	11,404,677	11,404,677
Capital Surplus		9,686,700	10,073,700	10,071,578	10,071,578	10,071,683	10,073,860
Retained Earnings	Before Distribution	3,855,157	3,669,033	3,616,465	4,122,865	5,485,499	5,642,840
	After Distribution	3,855,157	3,669,033	3,616,465	3,586,845	(Note)	(Note)
Other equity		(483,507)	642,351	1,540,806	1,080,691	488,620	(164,927)
Treasury shares		(25,894)	(25,894)	-	-	(360,464)	(360,464)
Non-Controlling Interests		(59,709)	(216,972)	(120,524)	(96,281)	(876)	8,655
Total Equity	Before Distribution	23,782,644	25,552,115	26,513,002	26,583,530	27,089,139	26,604,641
	After Distribution	23,782,644	25,552,115	26,513,002	26,047,510	(Note)	(Note)

Note: It depends on shareholders' meeting resolution.


HND
FRA
BCN
PRIORITY

Condensed Statement of Income

Unconsolidated

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

Item	2012	2013	2014	2015	2016	For the Year Ended 31/03/2017
Net Sales	13,359,855	14,427,628	12,461,581	12,501,126	13,112,855	Not applicable
Gross Profit	1,124,952	1,293,885	919,055	1,973,787	1,740,245	
Income from Operations	1,489	59,302	(486,906)	511,724	130,769	
Non-operating Income and Expenses	(568,143)	(16,413)	458,895	122,021	1,830,786	
Profit (Loss) Before Income Tax	(566,654)	42,889	(28,011)	633,745	1,961,555	
Net Income (Loss)	(748,222)	29,303	13,476	539,330	1,907,939	
Other comprehensive income (loss), net of income tax	(143,924)	1,131,137	939,451	(483,569)	(601,356)	
Total Comprehensive Income (Loss)	(892,146)	1,160,440	952,927	55,761	1,306,583	
Earnings (Loss) Per Share(Note)	(0.69)	0.03	0.01	0.47	1.69	

Note：Based on weighted average shares outstanding in each year

Consolidated

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

Item	2012	2013	2014	2015	2016	For the Year Ended 31/03/2017
Net Sales	26,704,782	18,905,129	13,498,720	13,306,503	14,006,206	3,217,866
Gross Profit	2,819,788	3,018,681	3,049,866	4,148,730	5,120,546	1,246,184
Income from Operations	(1,448,408)	(1,648,317)	(1,388,942)	(449,217)	60,588	44,909
Non-operating Income and Expenses	813,411	1,436,827	2,955,409	3,196,182	2,347,936	121,435
Profit (Loss) Before Income Tax	(634,997)	(211,490)	1,566,467	2,746,965	2,408,524	166,344
Net income of continuing operation	(1,082,407)	(36,009)	1,942,431	2,429,173	2,057,909	137,051
Net income from discontinued operation	-	-	(1,888,222)	(1,861,568)	(64,588)	17,406
Net Income (Loss)	(1,082,407)	(36,009)	54,209	567,605	1,993,321	154,457
Other comprehensive income (loss) , net of income tax	(140,248)	1,117,883	934,274	(481,085)	(591,333)	(641,132)
Total Comprehensive Income (Loss)	(1,222,655)	1,081,874	988,483	86,520	1,401,988	(486,675)
Total Net Income Attributable to Shareholders of the Parent	(748,222)	29,303	13,476	539,330	1,907,939	157,341
Total Net Income Attributable to Shareholders of the non-controlling interests	(334,185)	(65,312)	40,733	28,275	85,382	(2,884)
Total Comprehensive Income Attributable to Shareholders of the Parent	(892,146)	1,160,440	952,927	55,761	1,306,583	(496,206)
Total Comprehensive Income Attributable to Shareholders of the non-controlling interests	(330,509)	(78,566)	35,556	30,759	95,405	9,531
Earnings (Loss) Per Share(Note)	(0.69)	0.03	0,01	0.47	1.69	0.14

Note：Based on weighted average shares outstanding in each year

Auditors' Opinions from 2012 to 2016

Year	CPA Firm	CPA	Audit Opinion
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	An Unqualified Opinions
2015	Deloitte & Touche	Ya Ling Wong, Chin-Ming Shao	An Unqualified Opinions
2016	Deloitte & Touche	Ya Ling Wong, Chin-Ming Shao	An Unqualified Opinions

Financial Analysis

Unconsolidated

Item		2012	2013	2014	2015	2016	31/03/2017
Capital Structure Analysis（%）	Liability to Total Assets Ratio	46.57	39.60	30.89	19,67	17.44	Not applicable
	Long-term Fund to Fixed Assets Ratio	1,894.76	1,438.68	1,429.16	1,508.16	1,795.72	
Liquidity Analysis (%)	Current Ratio	85.88	100.33	78.75	87.88	102.57	
	Quick Ratio	81.22	88.60	68.36	71.17	84.73	
	Times Interest Earned	(5.37)	1.33	0.73	11.14	117.73	
Operating Performance Analysis	Average Collection Turnover	1.84	1.90	2.33	3.78	3.74	
	Days Sales Outstanding	198	191	157	97	98	
	Average Inventory Turnover	10.00	12.41	9.63	11.61	12.87	
	Average Inventory Turnover Days	1.14	1.16	1.41	2.06	2.47	
	Average Payment Turnover	36	29	38	32	29	
	Property, Plant and Equipment Turnover	8.92	6.99	6.14	6.64	7.99	
	Total Assets Turnover	0.30	0.33	0.31	0.35	0.40	
Profitability Analysis	Return on Total Assets	(1.53)	0.26	0.25	1.64	5.82	
	Return on Equity Attributable to Shareholders of the Parent	(2.89)	0.12	0.05	2.02	7.10	
	Pre-tax Income to Paid-in Capital Ratio	(5.24)	0.38	(0.25)	5.56	17.20	
	Net Margin	(5.60)	0.20	0.11	4.31	14.55	
	Earnings Per Share	(0.69)	0.03	0.01	0.47	1.69	
Cash Flow (%)	Cash Flow Ratio	18.79	(14.58)	(1.54)	(14.35)	14.40	
	Cash Flow Adequacy Ratio	139.38	103.84	99.62	56.34	14.18	
	Cash Flow Reinvestment Ratio	(0.51)	(4.91)	(0.42)	(2.66)	0.79	
Leverage	Operating Leverage	197.27	5.91	0.38	1.57	3.27	
	Financial Leverage	(0.02)	(1.50)	0.82	1.14	1.14	

Consolidated

Item		2012	2013	2014	2015	2016	31/03/2017
Capital Structure Analysis（%）	Liability to Total Assets Ratio	48.20	36.26	31.94	20.47	18.93	20.64
	Long-term Fund to Fixed Assets Ratio	304.39	322.73	331.39	423.03	531.42	565.42
Liquidity Analysis (%)	Current Ratio	123.92	166.05	174.28	227.45	285.91	266.62
	Quick Ratio	97.35	125.12	149.10	200.74	252.83	233.65
	Times Interest Earned	(0.62)	0.15	(1.43)	10.68	76.18	48.92
Operating Performance Analysis	Average Collection Turnover	3.23	3.65	4.51	6.62	8.77	7.16
	Days Sales Outstanding	112	99	81	56	42	51
	Average Inventory Turnover	5.21	4.82	4.03	5.36	6.15	5.18
	Average Inventory Turnover Days	4.44	4.10	5.11	7.12	8.22	6.22
	Average Payment Turnover	70	75	91	69	60	71
	Property, Plant and Equipment Turnover	2.67	1.89	1.43	1.71	2.37	2.51
	Total Assets Turnover	0.58	0.44	0.34	0.37	0.42	0.38
Profitability Analysis	Return on Total Assets	(1.27)	0.41	0.36	1.69	5.78	0.48
	Return on Equity Attributable to Shareholders of the Parent	(2.89)	0.12	0.05	2.02	7.10	0.59
	Pre-tax Income to Paid-in Capital Ratio	(2.78)	(1.28)	(3.18)	7.52	19.80	1.12
	Net Margin	(2.80)	0.16	0.10	4.05	13.62	4.89
	Earnings Per Share	(0.69)	0.03	0.01	0.47	1.69	0.14
Cash Flow (%)	Cash Flow Ratio	35.52	34.14	46.10	40.75	93.87	7.03
	Cash Flow Adequacy Ratio	87.97	113.14	145.39	156.12	236.02	382.35
	Cash Flow Reinvestment Ratio	4.08	5.55	8.07	7.12	12.2	1.13
Leverage	Operating Leverage	(0.42)	(0.25)	(0.41)	(2.71)	22.63	7.67
	Financial Leverage	0.88	0.90	0.90	0.84	1.96	1.07

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 Payment Turnover = Cost of Sales / Average Trade Payables
   (5) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (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 = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (2) Return on Equity attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
   (3) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
   (4) Net Margin = Net Income / Net Sales
   (5) Earning per Share = (Net income attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

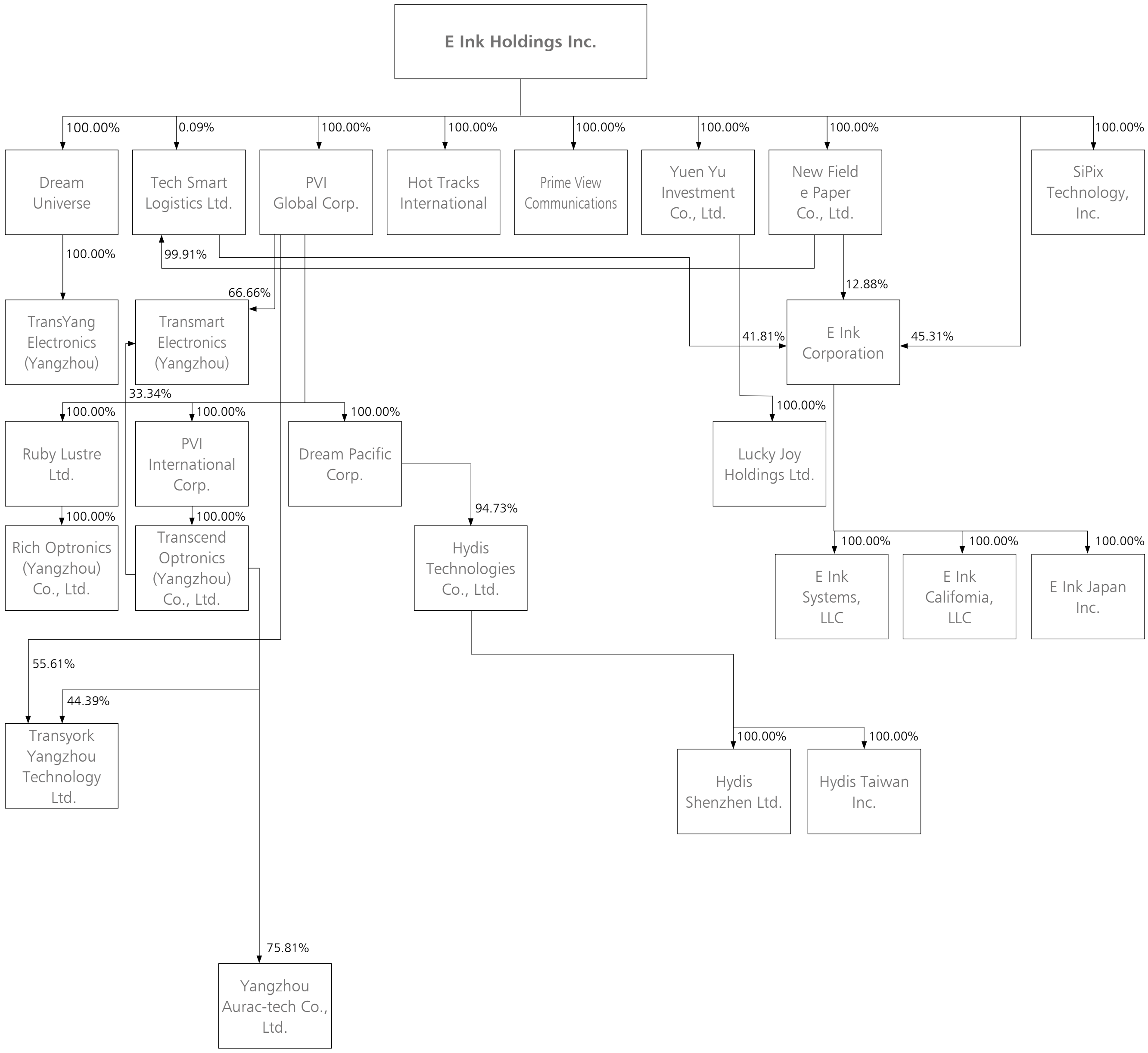
5. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided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

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

COMPANY INTRODUCTION

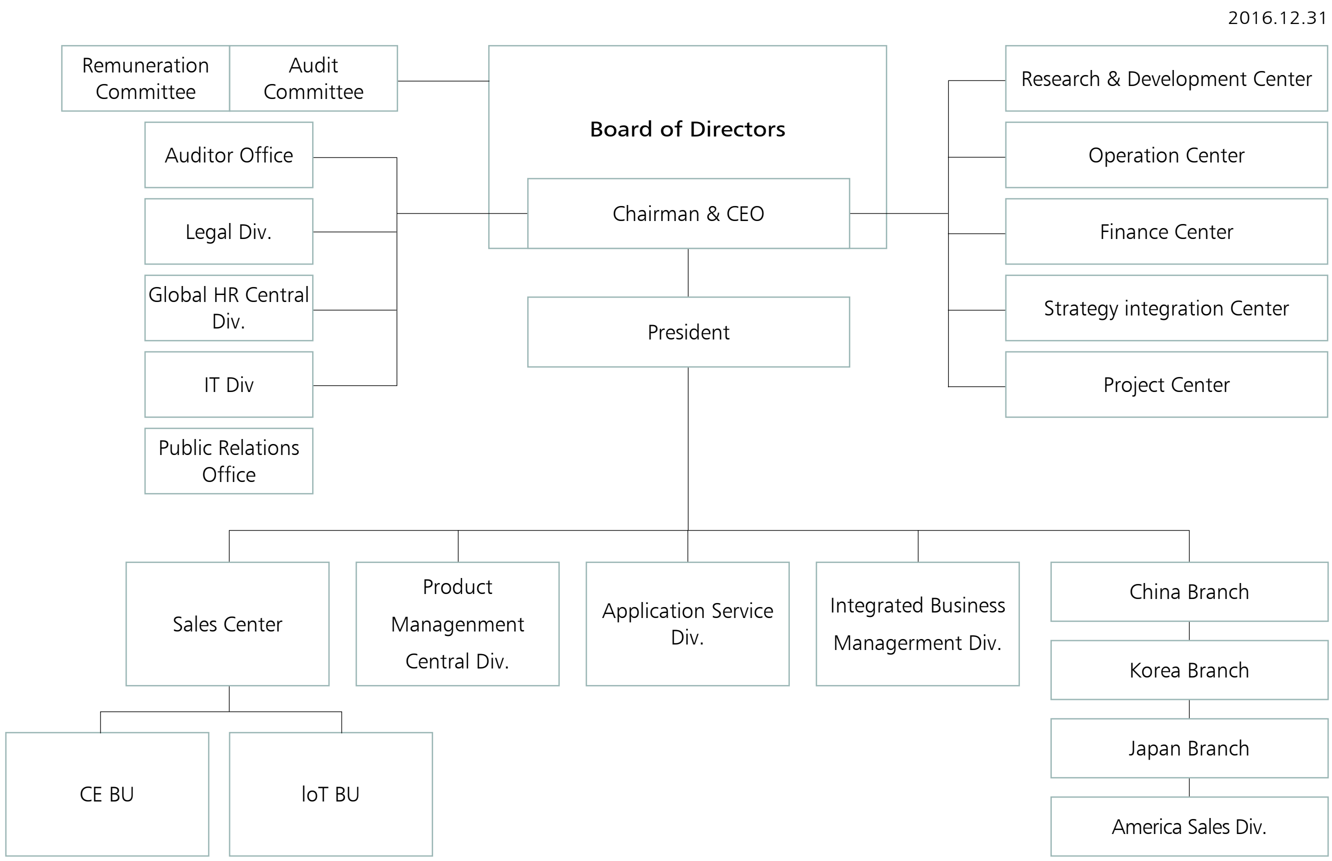
E Ink Holdings Inc. started in 1992 and manufactures Electronic Paper (ePaper based on Electrophoretic technology) and TFT LCD (Thin Film Transistor based Liquid Crystal Display). E Ink is the world leader in the global ePaper industry and one of the High-Tech Subsidiaries of the YFY Group. The YFY Group 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, Hydis Technologies, in 2008. In 2009, YFY Group authorized the acquisition of E Ink Corporation by E Ink Holdings to further integrate and expand the ePaper supply chain. The demand for ePaper has increased dramatically thanks to the booming 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



COMPANY ORGANZATION

E Ink Group

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OFFICE AND FUNCTIONS

- **Chairman &CEO Office (including Auditor Office, Legal Division, Global HR Central Division, IT Division and Public Relations Office):**
  Planning and implementation of corporate strategy and internal controls; legal affairs administration; and planning and management of document control; Planning and execution of human resources and public affairs; planning and implementation of industrial safety and environmental protection; IT planning and implementation, building corporate healthy image and media contact; and organization, planning, and execution of public relation affairs such as international exhibitions and product promotional activities.

- **President Office (Including Product Application Division, Integration Business Management Division, Industrial Safety Division, Environmental Protection Division)**
  Set up sales goal for each BU (Business Unit), Integration & optimization of sales orders flow, Assist each BU to promote the new product & new application to customers, Tackle down the possible problems to design in, Develop the evaluation kit for customer quick design in.

- **R&D Center:**
  Technology innovation, research and development of EPD, and implementation of mass production, including EPD research and development; patent deployment and planning; the design and the research and development of process technology of cutting-edge panels; development of the process technology of new platforms and modules; and the introduction of key materials, parts, and components; Provision of the reference design of terminal applications and products to customers; development of EPD system products; and assistance for customers to quickly design and implement mass production.

- **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 & business analysis;

- **Strategy Integration Center:**
  New product verification, product management and planning; and implementation of the product management platforms across all the business units;

- **Project Center:**
  Planning long-term development and strategies for the non-display application of products based on the internal materials, structures, and process technology of E Ink core value.

- **CE BU:**
  Sales and cultivation of customers and markets of e-Reader/e-Note/EPD products; solving and analysis of relevant problems in customer projects; and discussion, proposal, and provision of technical documents;

- **Electronic Shelf Industrial Products(ESI) BU:**
  Specialize in R&D, design, manufacture; and sale of all the ESL, smart card, smart home, medical, industrial/ IoT tag products.

- **Mobile Device (MD) BU:**
  The design of mobile phone and wearable products; provision of total solutions; development of the mobile device eco-system and product sales; assistance to customers for product planning ,design and implementation of mass production.

MANAGEMENT TEAM

TITLE / DIVISION	NAME	On-board Date (Note)
Chairman & CEO	Frank Ko	02-12-2013
President	Johnson Lee	01-03-2008
Chief Technology Officer	CC Tsai	01-08-2014
Vice President (Auditor Office)	Mico Yu	06-02-2012
Vice President (Operation Center)	Luke Chen	01-10-2010
Vice President (Product Development Central Div.)	James Hong	15-03-2010
Vice President (Advanced Technology Research Central Div.)	Yung-Sheng Chang	01-02-2010
Director (Finance Center)	Patrick Chang	01-02-2017
Assistant Vice President (CE BU)	Jeff Chang	07-06-2011
Assistant Vice President (FPL MFG Central Div.)	Mano Lo	09-12-2013
Assistant Vice President (Product Development Div.)	Tung-Liang Lin	25-05-1995
Assistant Vice President (Legal Div.)	Suzanne Chou	10-12-2012
Assistant Vice President (Oversea Project)	Max Chen	01-02-2013
Deputy Director (Accounting Div.)	James Huang	03-12-2013

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

DIRECTORS AND INDEPENDENT DIRECTORS

TITLE	NAME	Date Elected
Chairman & CEO	Frank Ko, Representative of YFY Inc.	18-06-2014
Director	Johnson Lee, Representative of Aidatek Electronics Inc.	18-06-2014
Director	Shou-Chung Ho, Representative of Aidatek Electronics Inc.	18-06-2014
Director	Felix Ho, Representative of Aidatek Electronics Inc.	18-06-2014
Director	Chuang-Chuang Tsai, Representative of YFY Inc.	18-06-2014
Director	Lloyd Chen, Representative of YFY Inc.	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

DIRECTORS AND SUPERVISORS

1.Chairman & CEO / Frank Ko 2. President / Johnson Lee 3.Chief Technology Officer / C.C. Tsai 4. Vice President (Operating Center) / Luke Chen

REVIEW OF OPERATIONS

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 81.47% of company revenue in 2016, with ESL and other products accounting for 18.53% 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.

Note: Due to long term strategic consideration, EIH announced to step out LCD business on September 23, 2016 and will be planning to focus on EPD diversified R&D and manufacture as well.*

New Products and Services

(1) In order to fulfill customer demands and to diversify into new applications, E Ink Holdings has established new EPD module product development plans based on the market feedback.

(2) E Ink Holdings has strengthened the development of new products for the applications of IoT, mobile device, smart home and industrial display, etc.

(3) E Ink Holdings has introduced new materials and new processes to develop new applications, to add new features to existing products in order to satisfy market demand, and to increase the competitiveness of EPD products.

(4) E Ink Holdings has increased the level of international collaborations to develop new generation of low-power and low-cost displays as one of the key elements to achieve sustainable business growth. E Ink Holdings will continue to deliver new products to the existing market. We will also integrate marketing, design and manufacturing capabilities to support the introduction of new technologies for new markets. E Ink Holdings is committed to providing good technical service in major markets, such as US, China, Japan and Europe. This will enable fast and effective response, while gaining a better understanding of individual market needs. Through keen observation and innovative strategic thinking, we will be able to develop solutions that closely meet the market demands, also leading to sustainable corporate growth.


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ARRIVALS


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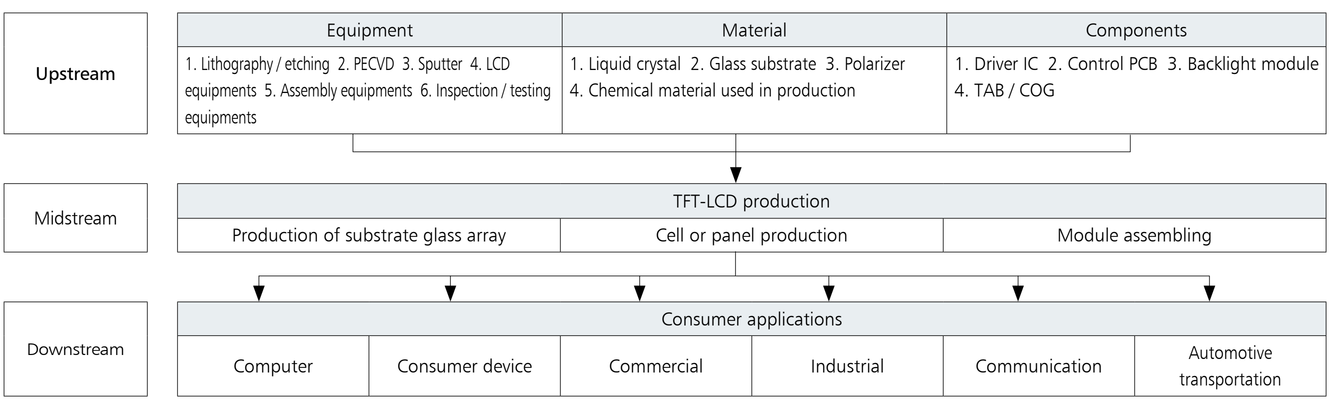
INDUSTRY OVERVIEW

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 bi-stable and can be viewed under strong light. Applications successfully developed with the EPD include e-readers, smart cards, smart electronic luggage tags, electronic tags, clocks, dual-screen LCD/EPD cellular phone, wearable bracelets/watches, signage and architecture. In addition to e-readers, the potential of other EPD applications has increasing customer production and market adoption. 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 be used on Internet of Things (IoT) in the long run and their future growth is promising. Other EPD applications include Intelligent e-Luggage Tag co-announced with Rimowa and Lufthansa, the SONY Digital Paper for the e-commerce and education markets, the world's first mass-produced dual-screen YotaPhone, the Sony smart bracelet 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. Quirklogic announced 42" IWB (Interactive White Board) with the adoption of E Ink ePaper to create the business feasibility in the future. In addition, the new Prism can be used on different types of buildings, such as signage and architecture. Furthermore, the Company cooperated with Japan Display Inc. for promotion of EPD market and also worked with NDP for Prism application. Apart from maintaining technology leadership, expanding patent deployment, and cultivating the e-paper industry, after integrating the personnel, technology, and resources of Billerica and Fremont, 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.

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)

After acquiring Philips' EPD business in 2005, we officially started the mass production of 2D-EPD as of Q3 in 2005 based on the long-time experience in e-reader R&D with Philips and E Ink as well as our continuous cultivation of the medium/small FPD market over time. Our success in introducing EPD to the market has enabled major customers to launch new models every year. As technology matures, we are aggressively developing large-size e-Reader and e-Note to meet the market demand. The e-Note is a 10.3-inch electronic display that supports writing, editing, and wireless transfer. Either in the education market or for business uses, it will build an energy-saving, eco-friendly, and paperless word-processing environment for people. In addition, the grip and viewing effects of large-size e-readers will be significantly improved. The current 6.8-inch, 7-inch, and 8-inch models are expected to create a new machine replacement trend.

2. Electronic Shelf Label

The electronic shelf label (ESL) is by far one of the best technologies that enable retailers to strengthen sales power and narrow the gap between O2O business models. In the past, people had a big concern on the ESL cost and thought it was hard to return on investment. The Giant Amazon launched Amazon Go Store officially that meant the man-free store era has already come in the retail markets. Customers won't pay at cashier counter any more but reply on ESL connection. Recognizing this trend, smart retailers has begun deploying the ESL system, making it a standard feature of retail stores. The breadth and depth of smart retail thus increases continuously. E-paper displays offer several benefits including thin and light, very low power consumption and paper-like. Compare to the traditional printed paper tag, Electronic Shelf Labels (ESL) offer retailers the ability to wirelessly update content on shelving signage quickly and efficiently, without the need to print paper tags or to deploy multiple employees to change them manually. Automated ESL systems reduce pricing management labor costs, improve pricing accuracy and allow dynamic pricing. Dynamic pricing is the concept in which retailers can fluctuate pricing to match demand, online competition, inventory levels, shelf-life of items, and to create promotions. Bi-stability, one of the most important characteristics of electronic paper displays, means the electronic paper displays (EPDs) only consume power while updating the images and data. As long as the information on the EPD is unchanged, no power is consumed. This helps satisfy the current trend for energy saving and greatly lower the cost for electronic labels in supermarkets. Additionally, EPD has a wide viewing angle almost reach 180-degree comparing to other displays so the data on the EPDs can still be seen from any angles. For example, during the Double 11 Festival (November 11, literally Bachelor's Day) of China, a leading electrical appliances retailer 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 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, E Ink have also developed low temperature electronic paper display for goods stored in fridges or freezers as well as Spectra™ e-paper (black, white and red) and Spectra™ Yellow (black, white or yellow) EPDs that retailers can offer promotional pricing that responds to their customer traffic patterns (price optimization). In the near future, E Ink will launch the low-voltage-operated e-paper tag. Compared to the supermarket chains using wireless transmission, this battery-free solution will be more suitable for smaller shops operation without the effort of remodeling or installing additional hardware. All it needs is a NFC-supported mobile phone to update shelf label contents at any time.

3. Smart Display Card

Statistics show that the total loss from credit card fraud with 6% annual growth in Europe and the USA ranged from US$4 million to US$10 million. Most card fraud cases occur due to "Card Not Present" (CNP). That is, CNP is the result of online shopping or contactless transactions. To maintain service quality and strengthen security authentication, card-issuing banks are taking intensive actions to find effective solutions. In the last couple of years, both Oberthur and Gemalto have developed dynamic CVV/CVC credit cards using the OTP concept and experimented with it on customers. The EPD is thus considered the ideal display for its light, slim, bi-stable, break and bend resistant, and high-contrast characteristics and extensively use for such purpose. After the experimental stage, it is expected that the minimum demand will be one million pieces a year and the demand will increase steadily each year. Furthermore, the Mobius series completed at the end of 2015 has received critical acclaim worldwide for its ultrathin, flexible, and high-resolution characteristics. Therefore, manufacturers have begun developing all-in-one products to combine credit cards, membership cards, and point collection cards into one single piece. They even plan to combine the discount barcode display function to optimize the product functions. It is estimated that a number of manufacturers will complete the design and verification of relevant smart card products in 2017 to trigger the war of card product innovation. Right now the bank BNP, BPCE have adopted these smart card solutions with E Ink ePaper Display. The China market and emerging countries will become part of the major customer groups which the Company will put much more R&D resources in.

4. Luggage/Logistic Tag

With its bi-stability, reflectivity, low power consumption, wide viewing angle near 180°, sunlight readable, flexibility, and pressure resistance characteristics, the EPD has gradually become the total solution of luggage and logistic tags for European, US, and Japanese airlines 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 order to solve the luggage-transport problems of airlines, E Ink co-announced an EPD embedded suitcase with world-leading suitcase manufacturer RIMOWA in November 2015. This product integrating suitcase, aviation, telecommunication, and high-tech industries has opened a new chapter for future travel. 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. Right now RIMOWA has aligned with two airliners such Lufthansa AG & EVA Air for deep cooperation. Eva air also launched its RIMOWA with e-Luggage in Dec. 2016 and also sold out this product within one month. Given luggage/logistics EPD tags can save paper and resource consumption, reduce labor on paper tag replacement, and enhance luggage and cargo traceability and significantly reduce overall travel/logistics time and monetary cost and thereby speed up logistics operation, EPDs will become an unavoidable trend in the future of air transportation and logistics industries.

5. Smart Home

The smart home has become a global technology advancement trend! After acquiring NEST at US$3.2 billion (approx. NT$96 billion), 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. World-leading manufacturers including Intel, Google, Apple, and Microsoft; Taiwan-based ASUS; and Chinese brands such as MI, TCL, 360.com, Hisense, Qingdao Haier, Sichuan Changhong, Hefei Meiling, and Midea Group have turned to intelligent appliances to deploy the smart home. Unlike conventional displays, the EPD is perfect for the new technology trend in modern times for its unique visual experiences, high contrast performance, and wide viewing angle to provide an ideal information display for new technology. EPD's outstanding bi-stability characteristic greatly appeals to the needs of energy saving of smart home. Its paper-like character also creates great visual experience to conform the living environment. According to Business Insider, the smart home is a fast-growing market with a compound annual growth rate of up to 52%. From the smartphone onward, new technology has changed lifestyles in all aspects. With the advancement of network infrastructure and big data transmission as well as the importance of energy saving, the eco-friendly e-paper display has earned increasing recognition on smart home application.

6. Internet of Things (IoT)

In 1999, MIT officially announced the Internet of Things (the IoT) when researching RFID applications in Auto-ID. Physical objects are connected with virtual data through data capture and communication over the global internet infrastructure to control, detect, identify and provide services. The term the IoT has since circulated extensively. Traditionally, internet users click or link one page to another to browse information through conscious interaction with websites and leave behavioral information. By contrast, the IoT can finish information collection before users are aware of it. Today, over five billion devices, including smartphones and personal computers, are used by over 6.7 billion people, thus creating tremendous business opportunities for the IoT. The Harbor Research survey shows that there will be over 10 billion O2O (online-to-offline) connections in 2020, with potential business opportunities worth over US$1 trillion. It is estimated that the IoT market value in 2020 will reach around US$150 billion to US$200 billion. Therefore, businesses are whetting their swords and bending their bows, ready to go! For its bi-stability 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. The power of the internet has overturned different trades: retail, education, finance, travel, transports, etc., and the IoT even re-defines the boundary of industries. The IoT makes daily life "more convenient" and "safer." In the future, everything we have been using will detect and predict our behavior via the IoT. For example, the air-con of your bedroom will raise the temperature, the security system will shut down, and the coffee-maker will brew coffee for you in the morning all automatically after the smart bracelet detects you have woke up and alerts the room air-con over the IoT. For example, 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 bi-stability 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.

7. Mobile Device

The low power and always-on feature of EPD has been increasingly acknowledged in wearable and mobile applications such as Sony FES U Generation II. By combining with payment and sensor technology, EPD wearable are ready to enter more vertical markets. These markets include payment, healthcare and sports, launch with leading brands later this year. In smartphone segment, as total solutions have gradually been matured, Siswoo, Hisense will launch EPD phones in volume. In addition, Google has announced its Ara modular phone, and EPD module becomes a very attractive option to enhance use scenarios and user experience.

With advantages of low-power, excellent readability outdoors and flexible design, the potential of EPD has been widely recognized. The emerging wearable market keeps drawing attention from consumers all over the world. The constant technology improvement has enabled EPD into wider applications such as mobile phone, wrist-band, smartwatch and gaming devices by providing innovative features and enjoyable user experience. Leading companies including Google, Sony and Lenovo have launched various products equipped with EPD display.

8. Digital Signage

Information that is accurate and available at the precise moment when it is needed is extremely valuable. The digital signage market has become a multi-billion dollar industry on the basis of this premise. E Ink is well positioned to serve this market by leveraging ePaper’s inherent low power consumption, readability and bi-stability. E Ink launched its largest ever display measuring 32” diagonally that is designed specifically for the signage market at SID 2014. Digital signage is very prevalent and is widely used in public transportation, gas stations, retail, education, healthcare, museums, libraries and many public spaces. E Ink is enabling solar powered signs that are easily readable and can be wirelessly updated over cellular networks. This allows digital information signs to be placed in remote locations or locations without access to power. Businesses and governments consider the environmental impact as a significant factor in making investments in digital signage. E Ink's ultra-low power signs offer environmentally sustainable and green alternatives. E Ink's signs have simple system design with fewer components likely eliminating need for fans or air conditioning. This can enable signs that are thin, lightweight and easy to install. In some instances, signs can be installed within the existing infrastructure bringing tremendous value for end customer for rolling out digital signage faster and potentially lower installation costs. E Ink's signs also offer long reliability and are easy to maintain, as there are no moving parts. Signage solutions are typically deployed for multiple years and total cost of ownership (TCO) is a key metric to determine ROI and expenses. E Ink's solutions offer low TCO owing to minimal electricity costs, simple installation, low maintenance and long reliability. E Ink's ePaper display enables Sustainable solutions with excellent readability and low Total Cost of Ownership (TCO). The appetite for information and digital signs and E Ink's strong value proposition in this market make an ideal scenario for significant revenue potential in the coming years. E Ink has successfully deployed street signs in Sydney, Australia where a significant number of signs have been installed, and many more planned for this year, to provide information about parking regulations to commuters. These signs are completely solar powered and are only made possible by the use of ePaper. In addition to this, E Ink is working with many system integrators and transportation authorities for trialing solar powered ePaper signs at bus stops to provide real time information about bus arrivals to help passengers plan their journeys. We are very excited about this opportunity as ePaper signs provide a unique solution for the end customers, especially where the signage location has no power available. There are multiple pilots and trials currently underway in public transportation, retail, museums, corporate and other applications that will help E Ink to grow digital signage business and further diversify company portfolio. Demand for digital signage displays is being driven by Europe and North America as well as emerging economies in Asia and South America. Significant portions of signs are still paper based and static which is labor intensive to change. Digital conversion of these signs will also fuel growth. E Ink is well positioned to see continued growth and capitalize in Digital Signage marketplace.

9. Architecture

Architecture is an emerging application and a significant shift from traditional EPD markets. An entirely new medium has been made available to the architecture and design industry by combing the same e-paper technology with new pigment choices. Initially launched at CES 2015, E Ink Prism^{TM} is a color-changing film that can be integrated with traditional architecture materials to create new and exciting design experiences. Leveraging e-paper's attributes of bi-stability, flexible, reflective, and low power consumption with a color changing format creates a new "dynamic" segment in the architecture market that lies between traditionally static materials and digital displays. The Company has aligned with DNP(Dai Nippon Printing) to integrate E Ink ePaper Prism into the Retail Promotion Products sucessfully. Until recently, architects and designers either chose standard materials or consciously made the leap to digital displays to create changeable and interactive environments. Prism can be integrated with many standard materials –glass, acrylic, wood, etc.–to create a paint-like appearance that can change its color and pattern. As the trend of creating more engaging commercial spaces continues to grow, the demand for elements that interact like e-paper is expected to follow. Connected to external sensors, Prism can change the appearance of a space to create new and exciting experiences. Millennials, for example recently surpassed baby boomers as the largest generation demographic group. Having a very positive opinion towards technology exemplifies the importance of creating dynamic experiences and interactive environments now and in the future. While still emerging, architecture is expected to generate significant interest throughout the architecture and design market. In particular, commercial and institutional applications will create the greatest demand in markets like hospitality, healthcare, transportation, retail, museums, and higher education. Applications in these markets include lobbies, waiting areas, exhibits, terminals, food courts, exhibits, restaurants, lounges, and auditoriums. During 2016, there was close collaboration with key channel partners to develop products and build awareness. In March, Dai Nippon Printing featured E Ink Prism at Retail TECH. Super Studio saw e°FLOW exhibited during Milan's Design Week in April. SEGD (Society of Experiential Graphic Designers also recognized e°FLOW with a 2016 Global Design Award in June. E Ink also collaborated with 3form to launch Viva - a combination of 3form's modular systems and Prism–which won an Innovation Award at the 2016 NeoCon Show. Further North America is expected to see the first permanent installations by 2017. Locations in Asia and Europe are expected to follow soon after.

Competition and Positioning

In EPD products, we apply EPD in the e-book market with over 95% market share. World-leading e-book suppliers including Amazon and KOBO use our EPD. Amazon's latest Kindle Oasis e-book, released in April 2016, is the lightest and slimmest ever e-book in history, only 131 grams in weight and 3.4mm thick. It uses our ultrahigh resolution B/W EPD module at 300ppi. We have also released the 13.3-inch Digital Paper System in collaboration with Sony. It is both a reader and a writing pad on which users can write, footnote, save data, and share information with others, immediately. Therefore, it is ideal for organizations that require processing a large amount of information every day, such as education, government, and private agencies. In addition to the e-book market, we co-announced the RIMOWA smart suitcase in September 2015 with world-leading suitcase maker RIMOWA and German airline Lufthansa. This product has successfully combined E Ink's Mobius™ EPD, Lufthansa's app, and Bluetooth technology to make luggage check-in more easily and conveniently. Besides reducing paper tag consumption, this EPD smart suitcase can significantly enhance the convenience and safety and reduce the labor of luggage check-in.

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. With a first-class R&D team and years of cultivation in these fields, we have already developed excellent competitive strengths in technology R&D and product development in the future.

RESEARCH AND DEVELOPMENT OVERVIEW

In 2016, E Ink Holdings continued its commitment to the development of EPD products and technologies. In addition to continuously advance the EPD module technology, we are also devoted to the innovation of color EPD technology. Leveraging the know-how of electronic label, flexible display and touch panel, our new products received very positive market feedback. Meanwhile, we expanded the manufacturing capacity to maintain our leadership in the EPD market. In Year 2016 and first quarter in 2017, our consolidated R&D spending was NT$ 1.85 billion and NT$0.45 billion, respectively.

1. Electronic Paper Technology

The E Ink Carta™ is the latest generation of the mass-produced electronic paper. Carta™ has the highest reflectivity to date, with 50% higher contrast ratio and 22% higher reflectivity compared to Pearl™, the previous E Ink product. Carta™ is lightweight, environmentally friendly and can be comfortably read for extended periods of time, making it suitable for e-Readers, digital dictionaries, reference books, magazines and other future products to replace the traditional printed paper. Carta™ allows readers to enjoy the convenience of digital products without sacrificing the reading experience provided by printed materials. In 2015, E Ink upgraded the e-Paper technology to Carta™ 1.2 for sharper image quality.

2. Advanced Color ePaper (ACeP) Technology

In 2016, E Ink launched AcEP, a high quality, full color reflective display. For the first time ever, an electrophoretic display (EPD) can produce full color at every pixel without the use of a color filter array (CFA). ACeP sets a new standard for bright, reflective color achievable with EPDs. The initial target application for ACeP will be for digital signage.ACeP achieves a full color gamut, including all eight primary colors, using only colored pigments. The display utilizes a single layer of electrophoretic fluid, which is controlled using voltages compatible with commercial TFT backplanes. The fluid can be incorporated into either microcapsule or Microcup® structures. The richness of the colors is achieved by having all the colored pigments in every picture element (pixel) rather than the side-by-side pixel colors achieved with a CFA. This eliminates the light attenuation, which can be quite significant. Like regular E Ink ePaper, ACeP maintains the ultra-low-power and paper-like readability under all lighting conditions.

3.Three Pigment Electronic Paper Technology

The E Ink Spectra™ is the latest generation of mass-produced multi-colored E Ink product. In addition to black and white pigments, Spectra™ includes an additional red or yellow pigment, making it suitable for the application of electronic shelf labels and advertising displays. Retailers can easily change the product price, enabling dynamic pricing. Moreover, the third color can be remotely activated to display promotion and sale items dynamically. Combining with red or yellow backgrounds, the electronic shelf label can draw consumer's attention to enhance product marketability. Spectra™ supports both active matrix and segmented systems to meet different retailers' requirement. The three pigment EPD can also be employed for ID cards in industrial, smart card and medical applications.

4. Color Changing Film for Architecture and Art Design

The E Ink Prism™ is the latest dynamic color display technology ideally suited for the architecture and art design applications. Besides being a static display technology without consuming power, Prism™ can also support dynamic presentation. Coupled with motion sensing, Prism™ can completely transform a lifeless space into an interactive environment. This innovation enables architects and designers to express their ideas by presenting space and surroundings in a unique manner. The revolutionary way of applying Prism™ gives architects and designers more flexibility and freedom. In a commercial building, a hotel lobby, an airport, a transit station or a stadium, architects and designers can change the appearance of the venue by Prism™ to enhance people's perception through color transformation.

5. Flexible Electronic Paper Display

The E Ink Mobius™ is a flexible EPD with flexible plastic backplanes of either amorphous silicon or organic TFT. The flexible display technology enables customers to integrate conformal element into product design, leading to end products with unique design and function. The flexible EPD device has been mass-produced and introduced in the market. Using a plastic substrate, the flexible EPD module is thinner, lighter and shatter proof compared to its glass counterpart. Such features become more important as the display grows larger. We have collaborated with leading companies to develop and mass produce Mobius™ EPD products, which have received positive feedbacks from the market. Such eco-friendly and power saving Mobius™ EPD technology will have great potential to grow in the near future.

6. Front Light and Touch Panel Technologies

Reading under dim light is a common requirement of e-Reader, which can be realized by integrating front light on top of e-Readers. In addition, we have developed a color-temperature-modulation technology of the front light, which allows consumers to adjust the color temperature of the e-Reader from a cooler color to a warmer color, or vice versa, depending on their personal preference. In addition to the commonly adopted capacitive touch technology, we have been actively working with partners to develop touch panels for electronic paper displays. These new touch panel modules not only maintain the reflectivity of EPD, but also offer other design benefits to support new product developments.

7. EPD with Energy Harvesting Technology

The ultra-low power consumption feature of EPD modules makes it possible to adopt the wireless energy harvesting technology to drive a low-voltage EPD module. The small amount of the electricity generated by wireless transmission is sufficient to drive and refresh the EPD display without the need of a battery. The technology supports both the near-field connection (NFC) at 13.56 MHz and the ultra-high frequency (UHF) at 915 MHz for short and long distance applications, respectively, which are in complete compliance with the mainstream wireless communication protocols. For the short distance application, the EPD modules can be used in an e-Wallet, e-ID, as well as e-Readers or smart watches with an NFC receiver. For the long distance application, the EPD with the UHF RFID reader can be used in a transportation system, ESL, e-luggage tag for logistics, warehouse automation system, smart card, smart home, e-bulletin and digital signage.

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 by providing total solutions of cover lens/front light/touch integrated stack modules to design-win more world-leading customers.

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.

4.Integration with upstream and downstream manufacturers to co-develop more complete and more competitive products and systems.

MARKET OVERVIEW

Electronic Paper Display Market

2016 was marked by increased interest in electrophoretic displays (EPD) in an increasing number of applications beyond the typical applications of e-Readers and electronic shelf labels (ESL). The market continues to view EPD technology as being the only real alternative to LCD or LED displays. The unique properties of EPD make it the ideal display technology that enables product designers to solve problems in more efficient ways or to develop products that are unique. 2016 was again marked with EPDs being used in new products is really different applications. Examples of such products can be seen throughout this report. 2016 was the year that E Ink display technology became widely recognized in many applications outside of e-Readers. 2016 is the year that E Ink showed that it is more than a display company. The announcement of E Ink Prism™ in January was a great success and showcased how E Ink technology can be used outside the display space. The announcement of PhutureMed™ by our partner, the Palladio Group, in October demonstrated a proof of concept product for smart packaging in pharmaceutical applications. This opens up entirely new business opportunities for E Ink.

The drive to diversify the EPD market and E Ink's business continues. Application markets can be viewed as following an adoption curve as they grow from a concept stage through adoption, rapid growth and at some point a large stable business. The e-Reader market followed such a curve from 2005 through 2013. Initial concepts and ideas were brought to market. Typically new technology products will see slow to moderate adoption until a trigger event, or collection of events, happens to spur rapid adoption and growth. It is informative to view E Ink's diversified businesses and application markets with such a model. E Ink initiated a focus on diversifying our business in 2013. Diversification involved introducing electronic ink technology into new markets, seeding the market with new concept products and actively engaging potential lead customers and opinion leaders in those applications.

These applications and markets are grouped into 6 business development areas within E Ink. They are Consumer Electronics, ESI, Mobile & Wearables, Signage, Architecture, and Smart Packaging.

Each of these areas is at a different stage in the adoption curve. But each of these areas has the potential of becoming a significant business by itself. Consumer Electronics, which includes e-Reader product, is the largest and most stable of the applications areas. Smart Packaging is the newest area and is just starting on its path on the adoption curve. The overarching message from all these applications is that market for e-Paper continues to grow beyond e-Readers. E-Readers continue to be a major and stable part of our business. The special properties of low power, readability, lightweight and ruggedness are driving the expansion of e-Paper displays into many different markets. The market portfolio is becoming diversified with many major products now using e-Paper displays to deliver unique features to the customer.

Consumer Electronics eReader Applications

The market for eReader continues to be strong and stable. For the past few years, E Ink has seen the demand for eReaders remain healthy and stable at approximately 10 million units per year worldwide. E Ink's major customers continue to plan new product releases in the coming months and years. Barnes & Noble announced the Nook Glowlight Plus, an updated version of its Nook eReader. This was a welcomed decision by Branes & Noble to reinvest in their eReader and eBook business.

Electronic Shelf Labels Applications

A key market that E Ink products are continuing to see success and grow is Electronic Shelf Label (ESL). The ESL market is next largest market for EPD after eReaders, seeing grow rates of high double digit percentage in the past 2 years. ESL is viewed as about to enter a significant growth stage in its market adoption curve.

2015 and 2016 were years where major retailers ran numerous proofs of concept trials and started their deployment. Examples of this are the decision of Media Markt to begin full store deployment of the E Ink Spectra™ red ESL tags in their stores. It should also be noted that there is increasing demand not only for smaller displays in the 2" range but also for larger displays in the 4"-6" range. E Ink has formed strong partnerships with the main system suppliers to the ESL market. This includes companies such as Pricer, DisplayData, Imagotag, and Altierre. The adoption wave is slowly moving to North America as well with a number of large retailers running trials in 2015. These North American retailers are planning their deployments now and will fuel the continued growth of the market into 2016.

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 2016 we continued to show the positive results of that effort with numerous design wins using E Ink displays in products and in markets never thought of before. E Ink displays are in products from markets such as smartphones, wearable technology, medical, travel industry and digital signage.

Other Markets: Wearables

WiThings, one of the leading companies developing health and activity tracking devices, announced the WiThings Go with an E Ink display. The product received excellent reviews. Go is an excellent example of products that are enabled by E Ink technology. The device is very light and rugged. Thanks to the ultra-low power display, the device will run for 8 months on a single coin cell. There by eliminating the need to design in charge capability and the consumer to charge their device every night.

Other Markets: Transportation

At CES 2014, E Ink received a lot of attention thank to a new concept product, the Electronic Luggage Tag. A simple device that would replace paper tags now in use. And it would enable the airlines to track passenger's luggage in an effort to eliminate lost luggage. In 2015, we saw the next generation and the announcement of trials. Rimowa, a premier luggage manufacturer, and Lufthansa Airlines announced a trial of the new electronic luggage system. Rimowa designed the new luggage tag directly into its suitcases and provides a luggage tag that is fully IATA compliant. This promises to speed travelers through airports even if they are checking luggage. Eva airline also adopted the e-Luggage solution already.

Other Markets: Large Area Signage

The digital signage market for EPD was just in its infancy in 2014. Some new concept products had been shown and E Ink was starting to drive some interest. 2015 saw that market start to ramp up. With our system partners, there were a number of evaluations in a number of different markets. E Ink displays are ideal for a number for solutions in this market. Potential customers are focusing on EPD displays because of the low power, easy readability and simplified system solution. An example is the trial run for bus stop information displays. Using the same idea, our partner Visionect announced the Joan meeting room management system. Due to the low power requirements of the E Ink display, the units of the system are solely battery powered and can be deployed in any location and attached to any surface without having to run power to the units. Joan was recognized as a CES Innovation Award Honoree by the CES 2016 committee. After having successfully executed a number of trials during 2015, 2016 should see an increase in deployment and ramp up of the signage business. The signage business is also expanding as an increasing number of product designers think of new ways to deploy public information systems once the need to have direct power is removed. Quirklogic has also announced its 42” IWB with E Ink ePaper Display solutions in the market.

Other Markets: Architecture

E Ink Prism™ was possibly the product announcement that caused the greatest amount of interest and excitement during 2015. E Ink has always viewed itself as a technology company first and a display company second. Prism is a perfect example of what is possible when you think differently about how our technology and products can be used. Prism is not a display but a color-changing film. It is specifically targeted for architecture and design applications.

For a few years, E Ink had been engaging with architects and designers who were looking for options to create dynamic environments without using light emitting LCD or LED displays. The bright lights of these mediums created an environment that was difficult to work with and not something that could be easily integrated into their design. Prism was introduced at the CES 2015 trade show with a tiled wall concept nearly 5 meters high. Prism received a lot of attention and media coverage. Since its announcement, Prism has been shown at other locations and events and won numerous awards. The Prism business development team had an extremely busy year in 2015 working with partners interested in learning more about Prism and discussing different options for projects that could use color-changing film material. eFlow is a great example of what is possible using Prism that is almost impossible to do with any other product. Using 52 strands of Prism which are more than 5 meters long, eFlow is a dynamic design structure intended for large areas. Each strand can change and create different wave and animation patterns that respond to the ambient motion of people in the environment. eFlow started out as a proof of concept but it quickly won awards and create interest in similar applications. The same ideas and concepts used in eFlow are being applied to other designs, architectural installations, and even in some retail applications. Architecture is still a new application for E Ink. The ramp and adoption curve is still unknown. Prism does show what is possible with E Ink technology beyond displays. 2017 is expected to be a very interesting year for Prism.

Other Markets: Smart Packaging

The newest application for E Ink technology is in smart packaging for the pharmaceutical and cosmetic industry. In general packaging is viewed as a low cost, low margin application. In recent years E Ink has been approached by companies making high end or high value products that were interested in how they could apply electronic ink to deliver added value or solve problems for their customers. The PhutureMed product announced by The Palladio Group in partnership with E Ink is a concept product to address those needs. E Ink's rugged, low power and flexible displays enabled intelligence to be incorporated right into the paper packaging. This simple solution can have a significant impact. When the system is fully developed, the display can be used to help patients take their medications and remind them if they forget. Not taking medication at the right time or forgetting to take it at all is a significant problem in the health care field. Pharmaceutical companies are looking for this type of solution to improve compliance with the prescribed therapy and to improve health care. The value that such a system would provide is viewed as being significant and well worth the additional cost added to the packaging. This is a concept product and is being discussed with leading companies.

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 2017 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. Diversifying into new applications outside the displays further expands the potential market for E Ink. Electronic ink is a unique product that has unique properties. It cannot be used to solve all display applications. But for applications where these unique properties are important, it is probably the only technology that can be used to deliver a product. 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. E Ink now receives leads distributed across many different industries. 2016 has shown that there were many more applications that are options for electronic ink. This can be seen from the distribution of leads inquiring to use E Ink, shown the chart below.

Competitiveness

E Ink is in a unique competitive position with it products and technology. This has expanded during 2015 & 2016. During the past two years, E Ink has shown that its technology has applications outside the typical display market. Due to the unique properties and capability of the technology, it is positioned as enabling product designers to develop products that cannot be done with LCD or LED displays; or the products will not have the same customer value as what is possible with E Ink technology. Many product designers do develop many consumer products using LCD and LED and many of them do view E Ink as being a competitive offering. Those product designers that truly understand what is possible with E Ink are our focus. There has been considerable focus during 2015 & 2016 to enable such product designers to more easily incorporate E Ink into their product designs. The markets for consumer and industrial products that E Ink customers target are very competitive and are experiencing a need for faster product design cycles. It is exactly this that E Ink is seeking to enable so that more products can use E Ink technology and our customers can rapidly introduce those products to market. In addition to our EPD product line the 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. Leading LCD manufacturers continue to license this FFS technology from E Ink.

Favorable and Unfavorable Factors in the Long Term

(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 display (EPD) technologies. We have further integrated upstream and midstream supply chain elements for EPD products to 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, transportation, large area signage, architecture, and smart packaging applications.

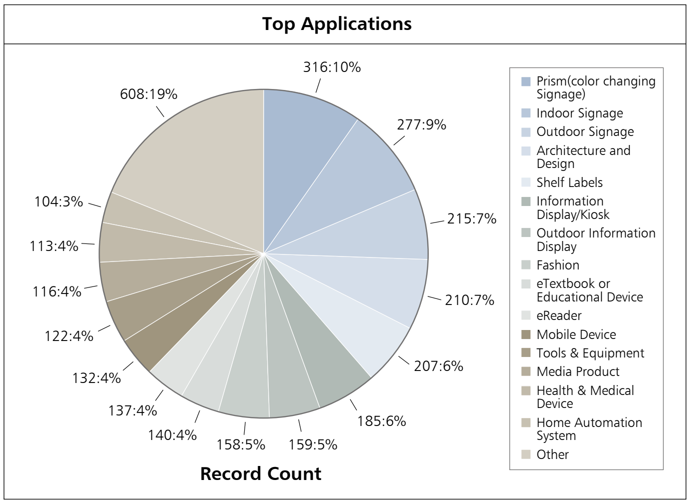
(2) Unfavorable factors and coping strategies

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

Response: E Ink Holdings has worked with customers from various fields to develop diversified applications and expand markets for EPD.

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 announced to gradually reduce the scale of TFT-LCD business and continued to focus on developing diversified applications of EPD to enhance operational efficiency.



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

E INK HOLDINGS INC.

Financial Statements for the Years Ended December 31, 2015 and 2014 and Independent Auditors' Report

CONTENTS


SUPERDESIGN SHOW


DNP 電子ペーパー
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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
E Ink Holdings Inc.

Opinion

We have audited the accompanying financial statements of E Ink Holdings Inc. (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements for the year ended December 31, 2016 are stated as follows:

Impairment of Goodwill Included in the Investments in Subsidiaries Accounted for Using Equity Method

As disclosed in Notes 4 and 11 as well as Table 7 to the financial statements, investments accounted for using equity method include acquiring subsidiaries to obtain electronic ink research and development and manufacturing centers, as well as to integrate patents of ePaper techniques. Excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities at the date of acquisition was recorded as goodwill, which is material to the overall financial statements, therefore, management annually access the impairment of the excess of the cost in accordance with the International Accounting Standard 36 "Impairment of Assets".

Management assess the excess of the cost for any impairment by comparing the carrying amount with the calculated recoverable amount as assessed based on the entire financial statements of the subsidiaries. In order to perform the assessment, management need to estimate future operating cash flows allocated to the subsidiaries and determine their suitable discount rates to calculate the recoverable amount. When determining future operating cash flows, management consider the forecasted growth rate of sales and profit rate, etc. based on future operating perspective of the subsidiaries to calculate weighted average cost of capital as their discount rates. Since the major assumptions are subject to management's judgement and may be variable to future market or prosperity of economy, which has its uncertainty, the impairment of excess of the cost has been identified as a key audit matter.

Our key audit procedures performed in respective of the above area included the following:

1. Understood the related process and controls that management used to assess the impairment, including basis of assumptions and source of the data used in evaluation.
2. Evaluated whether management has taken into account the Company's recent operating performance and its industry conditions when estimating future growth of sales and profit rate to assess their achievability.

3.Adopted our internal financial advisory specialists to evaluate the reasonableness of the discount rates that management used, and re-performed to check the calculation.

Impairment of Inventories

As disclosed in Notes 4 and 10 to the financial statements, inventories of the Company are stated at the lower of cost or net realizable value. Management estimate net realizable value based on current market conditions and historical experience with product sales of a similar nature. Impairment is recognized on inventories without any moving for certain periods. Rapid changes in the development of technology and market conditions may have influence on the estimation, and results in obsolete and aged inventories. Consequently, impairment of inventories has been identified as a key audit matter.

Our key audit procedures performed in respective of the above area included the following:

1.Understood management's accounting policy and method of calculation of obsolete and aged inventories, and inquired if there were significant issues in the current year that would impact the accounting treatment.

2.Evaluated the process and basis on management's decision on the impairment ratio of obsolete and aged inventories, and examined the conditions of obsolete and aged inventories when performing inventories physical counts, to confirm the reasonableness of impairment recognized on inventories.

3.Acquired inventory aging reports and, with the assistance of our internal computer audit specialists, tested the consistency of inventories movement with management's estimation.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including members of the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1.Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2.Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3.Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4.Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5.Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6.Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2017

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.

E INK HOLDINGS INC.

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

ASSETS	2016			2015		
	Amount		%	Amount		%
CURRENT ASSETS						
Cash and cash equivalents	$	873,221	3	$	724,453	2
Debt investments with no active market		-	-		600,000	2
Accounts receivable		491,967	2		204,357	1
Accounts receivable from related parties		3,306,359	10		3,017,349	9
Other receivables from related parties		82,533	-		31,652	-
Inventories		916,313	3		850,819	2
Prepayments		94,356	-		236,675	1
Other current assets		46,926	-		53,727	-
Total current assets		5,811,675	18		5,719,032	17
NON-CURRENT ASSETS						
Available-for-sale financial assets		700,166	2		658,747	2
Financial assets measured at cost		22,305	-		22,305	-
Investments accounted for using equity method		24,288,540	74		24,611,753	74
Property, plant and equipment		1,511,731	5		1,770,660	5
Other intangible assets		198,165	-		123,694	1
Deferred tax assets		227,774	1		242,954	1
Other non-current assets		52,252	-		62,900	-
Total non-current assets		27,000,933	82		27,493,013	83
TOTAL	$	32,812,608	100	$	33,212,045	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings	$	-	-	$	100,000	-
Notes and accounts payable		985,728	3		772,153	3
Accounts payable to related parties		4,051,329	12		3,413,236	10
Other payables		477,616	2		519,397	2
Other payables to related parties		13,893	-		7,538	-
Current tax liabilities		29,498	-		4,070	-
Receipts in advance		75,465	-		11,889	-
Current portion of long-term borrowings		-	-		1,647,571	5
Other current liabilities		32,686	-		31,881	-
Total current liabilities		5,666,215	17		6,507,735	20
OTHER NON-CURRENT LIABILITIES		56,378	-		24,499	-
Total liabilities		5,722,593	17		6,532,234	20
EQUITY						
Share capital		11,404,677	35		11,404,677	34
Capital surplus		10,071,683	31		10,071,578	30
Retained earnings						
Legal reserve		1,113,687	4		1,059,754	3
Special reserve		70,678	-		70,678	1
Unappropriated earnings		4,301,134	13		2,992,433	9
Total retained earnings		5,485,499	17		4,122,865	13
Other equity		488,620	1		1,080,691	3
Treasury shares		(360,464)	(1)		-	-
Total equity		27,090,015	83		26,679,811	80
TOTAL	$	32,812,608	100	$	33,212,045	100

E INK HOLDINGS INC.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE	$ 13,112,855	100	$ 12,501,126	100
OPERATING COSTS	11,372,610	87	10,527,339	84
GROSS PROFIT	1,740,245	13	1,973,787	16
OPERATING EXPENSES				
Selling and marketing expenses	184,341	1	180,486	2
General and administrative expenses	789,521	6	646,553	5
Research and development expenses	635,614	5	635,024	5
Total operating expenses	1,609,476	12	1,462,063	12
INCOME FROM OPERATIONS	130,769	1	511,724	4
NON-OPERATING INCOME AND EXPENSES				
Interest income	12,808	-	33,415	-
Royalty income	12,798	-	30,716	-
Dividend income	26,350	-	30,990	-
Other income	25,003	-	30,463	-
Interest expense	(16,340)	-	(61,226)	-
Share of profit of subsidiaries and associates	1,914,510	15	100,200	1
Net gain (loss) on foreign currency exchange	(15,644)	-	80,335	1
Net loss on fair value change of financial assets at fair value through profit or loss	-	-	(58,813)	-
Impairment loss	(128,699)	(1)	(64,059)	(1)
Total non-operating income and expenses	1,830,786	14	122,021	1
INCOME BEFORE INCOME TAX	1,961,555	15	633,745	5
INCOME TAX EXPENSE	(53,616)	-	(94,415)	(1)
NET INCOME FOR THE YEAR	1,907,939	15	539,330	4
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	$ (7,956)	-	$ (14,178)	-
Share of the other comprehensive loss of subsidiaries accounted for using the equity method	(2,682)	-	(11,686)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	1,353	-	2,410	-
	(9,285)	-	(23,454)	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale financial assets	41,419	-	(174,115)	(2)
Share of the other comprehensive loss of subsidiaries accounted for using the equity method	(633,490)	(5)	(286,000)	(2)
	(592,071)	(5)	(460,115)	(4)
Other comprehensive loss for the year, net of income tax	(601,356)	(5)	(483,569)	(4)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,306,583	10	$ 55,761	-
EARNINGS PER SHARE				
Basic	$1.69		$0.47	
Diluted	$1.69		$0.47	

E INK HOLDINGS INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	Share Capital		Capital Surplus	
	Shares (In Thousands)	Amount		Legal Reserve
BALANCE AT JANUARY 1, 2015	1,140,468	$ 11,404,677	$ 10,071,578	$ 1,058,406
Legal reserve	-	-	-	1,348
Net income for the year ended December 31, 2015	-	-	-	-
Other comprehensive loss for the year ended December 31, 2015, net of income tax	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-
Partial acquisition of interests in subsidiaries	-	-	-	-
BALANCE AT DECEMBER 31, 2015	1,140,468	11,404,677	10,071,578	1,059,754
Appropriation of 2015 earnings				
Legal reserve	-	-	-	53,933
Cash dividends	-	-	-	-
Change in equity from investments in associates accounted for using equity method	-	-	105	-
Net income for the year ended December 31, 2016	-	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-
Acquisition of treasury shares - 20,000 thousand shares	-	-	-	-
BALANCE AT DECEMBER 31, 2016	1,140,468	$ 11,404,677	$ 10,071,683	$ 1,113,687

Retained Earnings		Other Equity			
Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares	Total Equity
$ 70,678	$ 2,487,381	$ 1,082,006	$ 458,800	$-	$ 26,633,526
-	(1,348)	-	-	-	-
-	539,330	-	-	-	539,330
-	(23,454)	(115,532)	(344,583)	-	(483,569)
-	515,876	(115,532)	(344,583)	-	55,761
-	(9,476)	-	-	-	(9,476)
70,678	2,992,433	966,474	114,217	-	26,679,811
-	(53,933)	-	-	-	-
-	(536,020)	-	-	-	(536,020)
-	-	-	-	-	105
-	1,907,939	-	-	-	1,907,939
-	(9,285)	(704,770)	112,699	-	(601,356)
-	1,898,654	(704,770)	112,699	-	1,306,583
-	-	-	-	(360,464)	(360,464)
$ 70,678	$ 4,301,134	$ 261,704	$ 226,916	$ (360,464)	$ 27,090,015

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,961,555	$ 633,745
Adjustments for:		
Depreciation expenses	267,257	261,208
Amortization expenses	29,888	33,020
Reversal of impairment loss on accounts receivable	(10,600)	-
Net loss on fair value change of financial assets at fair value through profit or loss	-	58,813
Interest expenses	16,340	61,226
Interest income	(12,808)	(33,415)
Dividend income	(26,350)	(30,990)
Share of profit of subsidiaries and associates	(1,914,510)	(100,200)
Net gain on disposal of property, plant and equipment	(98)	(2)
Impairment loss recognized on non-financial assets	128,699	64,059
Reversal of write-down of inventories	(150,398)	(285,000)
Net unrealized gain on foreign currency exchange	(52,401)	(74,242)
Royalty income	(12,798)	(30,716)
Changes in operating assets and liabilities		
Accounts receivable	(272,800)	190,544
Accounts receivable from related parties	(269,094)	(83,961)
Inventories	84,904	396,206
Prepayments	142,319	(155,148)
Other current assets	4,441	27,601
Notes and accounts payable	204,332	268,653
Accounts payable to related parties	655,865	(1,987,369)
Other payables	(44,134)	41,752
Receipts in advance	76,374	(102,724)
Other current liabilities	19,946	(4,251)
Cash generated from (used in) operations	825,929	(851,191)
Income tax paid	(10,031)	(82,939)
Net cash generated from (used in) operating activities	815,898	(934,130)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from capital reduction of available-for-sale financial assets	-	18,923
Proceeds from repayments of debt investments with no active market	600,000	600,000
Proceeds from disposal of investment accounted for using equity method	1,251,070	-
Proceeds from capital reduction of investments accounted for using equity method	-	3,697,675
Payments for property, plant and equipment	(135,027)	(172,502)
Proceeds from disposal of property, plant and equipment	114	76
Increase in other receivables from related parties	(52,896)	(5,977)
Payments for other intangible assets	(93,942)	(34,744)
Decrease (increase) in other non-current assets	231	(50,068)

(Continued)

E INK HOLDINGS INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Interest received	$ 18,313	$ 38,723
Dividends received	376,936	91,575
Net cash generated from investing activities	1,964,799	4,183,681
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(100,000)	(1,030,015)
Repayments of long-term borrowings	(1,624,771)	(2,229,544)
Increase in other payables to related parties	6,127	7,026
Decrease in other non-current liabilities	(1)	(1,682)
Cash dividends	(536,020)	-
Cash paid for acquisition of treasury shares	(360,464)	-
Interest paid	(16,800)	(62,379)
Net cash used in financing activities	(2,631,929)	(3,316,594)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	148,768	(67,043)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	724,453	791,496
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 873,221	$ 724,453

(Concluded)

E INK HOLDINGS INC. AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended December 31, 2015 and 2014 and Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
E Ink Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of E Ink Holdings Inc. and subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

Impairment of Goodwill

As disclosed in Notes 4 and 16 as well as Table 7 to the consolidated financial statements, the Group's goodwill was arisen from acquiring related subsidiaries to obtain electronic ink research and development and manufacturing centers, as well as to integrate patents of ePaper techniques. The amount of goodwill is material to the overall consolidated financial statements, therefore, management annually access the impairment of goodwill in accordance with the IAS 36 "Impairment of Assets".

Management assess goodwill for any impairment by comparing the carrying amount with the calculated recoverable amount as assessed based on the entire consolidated financial statements of the subsidiaries. In order to perform the assessment, management need to estimate future operating cash flows allocated to the subsidiaries and determine their suitable discount rates to calculate the recoverable amount. When determining future operating cash flows, management consider the forecasted growth rate of sales and profit rate, etc. based on future operating perspective of the subsidiaries to calculate weighted average cost of capital as their discount rates. Since the major assumptions are subject to management's judgement and may be variable to future market or prosperity of economy, which has its uncertainty, the impairment of goodwill has been identified as a key audit matter.

Our key audit procedures performed in respective of the above area included the following:

1. Understood the related process and controls that management used to assess the impairment of goodwill, including basis of assumptions and source of the data used in evaluation.

2. Evaluated whether management has taken into account the Group's recent operating performance and its industry conditions when estimating future growth of sales and profit rate to assess their achievability.

3.Adopted our internal financial advisory specialists to evaluate the reasonableness of the discount rates that management used, and re-performed to check the calculation.

Impairment of Inventories

As disclosed in Notes 4 and 12 to the consolidated financial statements, inventories of the Group are stated at the lower of cost or net realizable value. Management estimate net realizable value based on current market conditions and historical experience with product sales of a similar nature. Impairment is recognized on inventories without any moving for certain periods. Rapid changes in the development of technology and market conditions may have influence on the estimation, and results in obsolete and aged inventories. Consequently, impairment of inventories has been identified as a key audit matter.

Our key audit procedures performed in respective of the above area included the following:

1.Understood management's accounting policy and method of calculation of obsolete and aged inventories, and inquired if there were significant issues in the current year that would impact the accounting treatment.

2.Evaluated the process and basis on management's decision on the impairment ratio of obsolete and aged inventories, and examined the conditions of obsolete and aged inventories when performing inventories physical counts, to confirm the reasonableness of impairment recognized on inventories.

3.Acquired inventory aging reports and, with the assistance of our internal computer audit specialists, tested the consistency of inventories movement with management's estimation.

Other Matter

We have also audited the financial statements of E Ink Holdings Inc. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including members of the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1.Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2.Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2017

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E INK HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

ASSETS	2016			2015		
		Amount	%		Amount	%
CURRENT ASSETS						
Cash and cash equivalents	$	8,564,749	26	$	6,582,175	20
Financial assets at fair value through profit or loss		405,325	1		410,217	1
Debt investments with no active market		435,596	1		600,000	2
Accounts receivable		1,582,573	5		1,548,753	5
Accounts receivable from related parties		43,143	-		18,178	-
Other receivables		243,369	1		1,094,066	3
Current tax assets		425,835	1		110,575	-
Inventories		1,461,343	4		1,430,087	4
Prepayments		240,633	1		182,348	1
Non-current assets held for sale		973,212	3		1,167,734	3
Other financial assets		23,244	-		362,080	1
Other current assets		308,200	1		224,592	1
Total current assets		14,707,222	44		13,730,805	41
NON-CURRENT ASSETS						
Available-for-sale financial assets		1,787,015	5		1,674,342	5
Financial assets measured at cost		300,255	1		125,924	-
Investments accounted for using equity method		114,291	-		53,306	-
Property, plant and equipment		5,319,822	16		6,497,167	19
Goodwill		6,907,594	21		6,954,923	21
Other intangible assets		2,270,881	7		2,506,907	8
Deferred tax assets		1,689,278	5		1,528,756	5
Other non-current assets		317,205	1		353,096	1
Total non-current assets		18,706,341	56		19,694,421	59
TOTAL	$	33,413,563	100	$	33,425,226	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings	$	451,500	1	$	100,000	-
Notes and accounts payable		1,125,715	3		1,014,974	3
Accounts payable to related parties		10,679	-		10,520	-
Other payables		1,264,464	4		1,223,136	4
Current tax liabilities		74,052	-		46,271	-
Provisions		482,188	2		734,561	2
Receipts in advance		1,528,641	5		718,756	2
Current portion of long-term borrowings		129,000	-		2,130,573	7
Other current liabilities		77,711	-		58,014	-
Total current liabilities		5,143,950	15		6,036,805	18

(Continued)

ASSETS	2016		2015	
	Amount	%	Amount	%
NON-CURRENT LIABILITIES				
Long-term borrowings	170,981	1	302,892	1
Deferred revenue - non-current	906,903	3	400,886	1
Net defined benefit liabilities	64,470	-	80,363	-
Other non-current liabilities	38,120	-	20,750	-
Total non-current liabilities	1,180,474	4	804,891	2
Total liabilities	6,324,424	19	6,841,696	20
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	11,404,677	34	11,404,677	34
Capital surplus	10,071,683	30	10,071,578	30
Retained earnings				
Legal reserve	1,113,687	3	1,059,754	3
Special reserve	70,678	-	70,678	1
Unappropriated earnings	4,301,134	13	2,992,433	9
Total retained earnings	5,485,499	16	4,122,865	13
Other equity	488,620	2	1,080,691	3
Treasury shares	(360,464)	(1)	-	-
Total equity attributable to owners of the Company	27,090,015	81	26,679,811	80
NON-CONTROLLING INTERESTS	(876)	-	(96,281)	-
Total equity	27,089,139	81	26,583,530	80
TOTAL	$ 33,413,563	100	$ 33,425,226	100

(Concluded)

E INK HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE	$ 14,006,206	100	$ 13,306,503	100
OPERATING COSTS	8,885,660	64	9,157,773	69
GROSS PROFIT	5,120,546	36	4,148,730	31
OPERATING EXPENSES				
Selling and marketing expenses	528,498	4	538,869	4
General and administrative expenses	2,684,352	19	2,341,891	17
Research and development expenses	1,847,108	13	1,717,187	13
Total operating expenses	5,059,958	36	4,597,947	34
INCOME (LOSS) FROM OPERATIONS	60,588	-	(449,217)	(3)
NON-OPERATING INCOME AND EXPENSES				
Interest income	74,546	-	127,947	1
Royalty income	2,254,572	16	2,983,068	22
Dividend income	74,702	-	98,531	1
Other income	75,260	1	122,624	1
Share of loss of associates and joint ventures	(10,800)	-	(46,224)	-
Interest expense	(29,677)	-	(86,521)	(1)
Net gain (loss) on disposal of property, plant and equipment	26,427	-	(70,629)	(1)
Net gain (loss) on disposal of investments	(4,202)	-	99,248	1
Net gain on foreign currency exchange	105,185	1	197,424	1
Net gain (loss) on fair value change of financial assets at fair value through profit or loss	268	-	(56,491)	-
Impairment loss	(178,170)	(1)	(119,835)	(1)
Other expenses	(40,175)	-	(52,960)	-
Total non-operating income and expenses	2,347,936	17	3,196,182	24
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	2,408,524	17	2,746,965	21
INCOME TAX EXPENSE	(350,615)	(2)	(317,792)	(3)
NET INCOME FROM CONTINUING OPERATIONS	2,057,909	15	2,429,173	18
LOSS FROM DISCONTINUING OPERATIONS	(64,588)	(1)	(1,861,568)	(14)
NET INCOME FOR THE YEAR	1,993,321	14	567,605	4

(Continued)

E INK HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	$ (10,787)	-	$ (26,514)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	1,353	-	2,410	-
	(9,434)	-	(24,104)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(689,513)	(5)	(110,425)	(1)
Unrealized gain (loss) on available-for-sale financial assets	112,699	1	(344,583)	(2)
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(5,085)	-	(1,973)	-
	(581,899)	(4)	(456,981)	(3)
Other comprehensive loss for the year, net of income tax	(591,333)	(4)	(481,085)	(3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,401,988	10	$ 86,520	1
NET INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 1,907,939	14	$ 539,330	4
Non-controlling interests	85,382	-	28,275	-
	$ 1,993,321	14	$ 567,605	4
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 1,306,583	9	$ 55,761	1
Non-controlling interests	95,405	1	30,759	-
	$ 1,401,988	10	$ 86,520	1
EARNINGS PER SHARE				
From continuing and discontinued operations				
Basic	$1.69		$0.47	
Diluted	$1.69		$0.47	
From continuing operations				
Basic	$1.74		$2.02	
Diluted	$1.74		$2.02	

(Concluded)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company				
	Share Capital		Capital Surplus	Retained Earnings	
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve
BALANCE AT JANUARY 1, 2015	1,140,468	$ 11,404,677	$ 10,071,578	$ 1,058,406	$ 70,678
Legal reserve	-	-	-	1,348	-
Net income for the year ended December 31, 2015	-	-	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-
Partial acquisition of interests in subsidiaries	-	-	-	-	-
BALANCE AT DECEMBER 31, 2015	1,140,468	11,404,677	10,071,578	1,059,754	70,678
Appropriation of 2015 earnings					
Legal reserve	-	-	-	53,933	-
Cash dividends	-	-	-	-	-
Change in equity from investments in associates accounted for using equity method	-	-	105	-	-
Net income for the year ended December 31, 2016	-	-	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-
Acquisition of treasury shares - 20,000 thousand shares	-	-	-	-	-
BALANCE AT DECEMBER 31, 2016	1,140,468	$ 11,404,677	$ 10,071,683	$ 1,113,687	$ 70,678

		Other Equity					
	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares	Total	Non-controlling Interests	Total Equity
	$ 2,487,381	$ 1,082,006	$ 458,800	$ -	$ 26,633,526	$ (120,524)	$ 26,513,002
	(1,348)	-	-	-	-	-	-
	539,330	-	-	-	539,330	28,275	567,605
	(23,454)	(115,532)	(344,583)	-	(483,569)	2,484	(481,085)
	515,876	(115,532)	(344,583)	-	55,761	30,759	86,520
	(9,476)	-	-	-	(9,476)	(6,516)	(15,992)
	2,992,433	966,474	114,217	-	26,679,811	(96,281)	26,583,530
	(53,933)	-	-	-	-	-	-
	(536,020)	-	-	-	(536,020)	-	(536,020)
	-	-	-	-	105	-	105
	1,907,939	-	-	-	1,907,939	85,382	1,993,321
	(9,285)	(704,770)	112,699	-	(601,356)	10,023	(591,333)
	1,898,654	(704,770)	112,699	-	1,306,583	95,405	1,401,988
	-	-	-	(360,464)	(360,464)	-	(360,464)
	$ 4,301,134	$ 261,704	$ 226,916	$ (360,464)	$ 27,090,015	$ (876)	$ 27,089,139

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	$ 2,408,524	$ 2,746,965
Loss before income tax from discontinued operations	(384,150)	(2,507,128)
Income before income tax	2,024,374	239,837
Adjustments for:		
Depreciation expenses	893,220	1,251,936
Amortization expenses	417,554	414,103
(Reversal of) impairment loss recognized on accounts receivable	(11,245)	20,660
Net loss (gain) on fair value change of financial assets at fair value through profit or loss	(268)	56,491
Interest expense	29,677	86,521
Interest income	(74,546)	(127,947)
Dividend income	(74,702)	(98,531)
Share of loss of associates and joint ventures	10,800	46,224
Net loss (gain) on disposal of property, plant and equipment	(26,427)	70,818
Net gain on disposal of non-current assets held for sale	(5,808)	-
Net loss (gain) on disposal of investments	4,202	(99,248)
Impairment loss recognized on non-financial assets	328,046	264,823
(Reversal of) write-down of inventories	(232,336)	(822,164)
Net unrealized gain on foreign currency exchange	(17,498)	(53,446)
Changes in operating assets and liabilities		
Accounts receivable	(9,369)	858,874
Accounts receivable from related parties	(24,965)	45,984
Other receivables	832,097	(573,668)
Inventories	170,737	1,445,147
Prepayments	(59,783)	22,349
Other current assets	(93,460)	(9,643)
Notes and accounts payable	107,925	(507,761)
Accounts payable to related parties	159	(27,586)
Other payables	56,562	(29,074)
Provisions	(231,888)	657,801
Receipts in advance	1,343,318	(100,030)
Other current liabilities	19,936	(500,055)
Net defined benefit liabilities	(25,997)	(356,564)
Cash generated from operations	5,350,315	2,175,851
Income tax received (paid)	(521,847)	284,225
Net cash generated from operating activities	4,828,468	2,460,076
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	-	26,797
Proceeds from capital reduction of available-for-sale financial assets	-	18,923
Purchase of debt investments with no active market	(435,596)	-
Proceeds from repayments of debt investments with no active market	600,000	600,000
Purchase of financial assets measured at cost	(191,470)	-

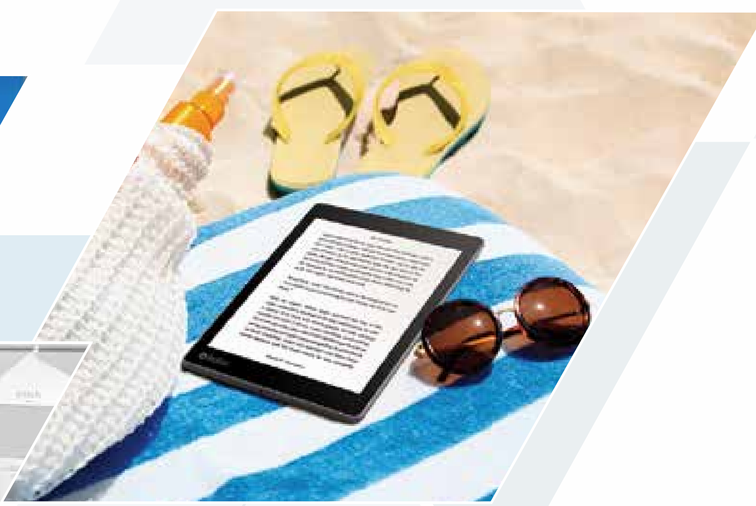
(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Proceeds on sale of financial assets measured at cost	$ -	$ 903,318
Acquisitions of associates and joint ventures	(83,697)	(50,591)
Proceeds on sale of associates	-	91,742
Proceed from disposal of non-current assets held for sale	6,003	-
Payments for property, plant and equipment	(303,217)	(370,152)
Proceeds from disposal of property, plant and equipment	180,527	46,514
Payments for other intangible assets	(196,721)	(40,390)
Decrease (increase) in other financial assets	333,740	(362,08)
Decrease (increase) in other non-current assets	15,350	(24,672)
Interest received	78,769	137,136
Dividend received	74,702	98,531
Net cash generated from investing activities	78,390	1,075,076
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	351,682	(1,696,534)
Repayments of long-term borrowings	(2,093,750)	(3,099,260)
Increase (decrease) in other non-current liabilities	11,186	(15,552)
Cash dividends	(536,020)	-
Cash paid for acquisition of treasury shares	(360,464)	-
Interest paid	(30,038)	(88,325)
Changes in non-controlling interests	-	(15,992)
Net cash used in financing activities	(2,657,404)	(4,915,663)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	(266,880)	(161,608)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,982,574	(1,542,119)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	6,582,175	8,124,294
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 8,564,749	$ 6,582,175

(Concluded)



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