



E INK HOLDINGS INC.
2013 Annual Report

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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 production capacity reached 18,000 substrates
- Oct 2000 Securities & Futures Information Center issued authorization for public offering
- Sept 2001 Expanded its monthly production capacity to 36,000 substrates
- Oct 2001 Acquired ISO 9001 certification
- Apr 2002 Taiwan's Investment Commission approved the company's plan to set up a PRC subsidiary, Transcend Optronics (Yangzhou) Co Ltd, through a third region investment entity
- Jul 2002 Acquired QS-9000 Certification for product quality, ISO 14001 Certification for environmental standards, and OHSAS 1800 Certification for occupational health and safety management systems
- Feb 2003 Listed its shares on Taiwan's Emerging Stock Market
- Oct 2003 Applied for its shares to be listed on Taiwan's GreTai Securities Market (GTSM)
- Jan 2004 GTSM approved the company's application for its shares to be listed
- Mar 2004 Commenced trading on the GTSM on March 30, 2004
- Nov 2004 Taiwan's Investment Commission approved the company's application for indirect investment in Rich Optronics (Yangzhou) Co Ltd in PRC through a third region investment entity
- May 2005 Partnered with Philips in EPD (Electronic Paper Display) business
- May 2006 Executed the 1st treasury stock repurchase and retired 296,000 issued shares
- Oct 2006 Established US subsidiary to expand sales network in the America
- Nov 2007 Signed a merger memorandum with BOE Hydis Technology of South Korea
- Jul 2008 Officially acquired share ownership of Hydis Technologies
- Jun 2009 Signed agreement to acquire 100% share ownership of E Ink Corporation (EIC) USA
- Sept 2009 Signed amended agreement for the 100% share transfer with EIC and shareholder representatives to obtain 100% share ownership of EIC, effective December 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
- 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
- Mar 2011 The company's Board of Directors passed a resolution for a second treasury stock repurchase to be used for employee motivation programs
- Jun 2010 Changed English name of the company to "E Ink Holdings Inc."
- Jan 2011 Approved by the Investment Commission to invest in the Chuanyuan Electronics (Yangzhou) Co., Ltd. in Mainland China through a third-location investment vehicle.
- May 2011 The E Ink Triton™ EPD was awarded by the SID as the Best Display Component of Year 2011.
- Jul 2011 Partnered with Chunghwa Picture Tubes Ltd. by subscribing to the unsecured convertible bonds from its non-public offering after approved by the board of directors.
- Oct 2011 The E Ink Triton™ EPD won 2011 Technology Innovation Award issued by Wall Street Journal, USA.
- Nov 2011 The E Ink Pearl™ EPD won 2011 Innovation Awards for Electronics issued by IET, UK.
- Nov 2011 Terminated the joint investment in Hydis with LG Display under a mutual agreement. Hydis redeemed its corporate bonds held by LG Display and relieved all the guarantee contracts related with said bonds.
- Jun 2012 The next generation E Ink high performance EPD won the Fifteenth Excellent Optical Product Prize from the Photonics Industry & Technology Association.
- Jun 2012 The high contrast E Ink Pearl™ EPD won the Eleventh Surface Display Component Product Technology Prize's Excellent Component from the Image Display Industry Advancement Office, Industrial Development Bureau of the Ministry of Economic Affairs.
- Jul 2012 E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with Sharp Corporation.
- Oct 2012 E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with AU Optronics Corp.
- Nov 2012 E Ink Holdings Inc completed the purchase of SiPix Technology, Inc. and its wholly owned subsidiary SiPix Imaging, Inc. (USA)
- Dec 2012 E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with Chunghwa Picture Tubes Ltd.
- Jan 2013 E Ink Holdings Inc. bought facilities and equipments from its subsidiary, Sipix at Linkou, to integrate production capacity in Taiwan and to improve assets utilization.
- May 2013 E Ink Holdings won the Best in Show award for 2013 from the Society of Information Display (SID) of the United States.
- May 2013 E Ink Spectra released. Spectra is the world's only electronic paper display capable of displaying three colors of red, black, and white.
- June 2013 E Ink Triton, the all-functional color EPD, received the 16th Outstanding Optical Electronic Product Award from the Photonics Industry and Technology Development Association (PIDA).
- Nov 2013 Our company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with Innolux Corporation.
- April 2014 Our company's Korean subsidiary Hydis Technologies Co., Ltd. signed a patent exchange authorization agreement with BOE Technology Group Co., Ltd.





>> Letter to Shareholders

Dear Shareholders,

E Ink Holdings Inc. has been devoted to the development of electronic paper industry with its technological edge, expanded patent strategies and innovative concepts. After a complete integration with SiPix in the areas of talents, technologies and resources, the Company is equipped with even more comprehensive strategies in the e-paper business. On the solid basis of our existing e-Reader markets, the Company continues its transformation towards a diversified application and development of the electronic paper displays (EPD).

2013 Business Report

For E Ink Holdings Inc., 2013 was a year full of challenges and a transition period during which the Company was adjusting the way we do business. Overall speaking, thanks to the concerted efforts and hard work of all our staff, we have made some rewarding accomplishments for the year. In 2013, E Ink had a combined revenue of NT\$ 18.9 billion, a gross profit of NT\$ 3 billion with a gross profit margin at 16% and a net income after tax of NT\$ 29 million. The earnings per share (EPS) for 2013 are NT\$ 0.03. Compared to 2012, we have strived for improving our product portfolio and improve efficiency by eliminating certain poorly performed products. This led to our healthier revenue income and an improved gross profit margin.

For the EPD business, we are facing a more difficult manufacturing and production environment due to the market demand and clients' repeated requests for new product specifications and designs. Despite these challenges, the hard work of our staff pushed up the overall shipment of eReader devices in 2012, contrary to previous pessimistic expectations. On the other hand, the electronic shelf label (ESL) business continues to grow. We have received new purchase orders from a good number of retailers in Europe and the US, which are likely to grow in the future. As to the use of EPD in applications such as mobile phones and wrist watches, we expect to see more mature markets for new applications in several years to come, which will bring more business to the Company. In terms of TFT LCD, E Ink chose to shun away from the price-cutting competition in the consumer market and focused on our niche markets. We are developing as well the licensing for fringe field switching (FFS) technology to maintain a more profitable operating strategy.

Inspired by our quest for excellence and a bold and daring spirit, we are undergoing an organizational reengineering plan by changing our business model of running subsidiaries to a globally integrated company. Through the establishment of functional organizations and business units, we are gradually moving toward our goal of global integration. We hope doing so will successfully integrate front and back offices, and design and materials of electronic mechanisms, in order to effectively support the development of new products and business activities with an ultimate goal of a diversified portfolio in the EPD market.

2013 was also a year of a vibrant emergence of e-paper technologies within E Ink. We subsequently launched different EPD technologies including Carta, Spectra, Aurora, Mobius and Fina, each focusing on a different product or market sector. E Ink Carta™, utilizes a brand new e-paper technology that greatly improves display contrast and reflectivity and creates an enviable visual and reading experience comparable to or better than that of paper books. Carta has been first used in Kindle Paperwhite, the latest eReader device from Amazon. E Ink Spectra™, the first production epaper product with red, black and white color pigments, works best for ESL systems in the retail marketplace and enables real-time transmission of valuable information such as new product launches or promotions to consumers. This technology can also be used in the electronic identification systems for the industrial, smart cards and medical applications. E Ink Aurora™ operates perfectly in low temperature as cold as minus 25°C, giving more flexibility to retailing, medical and logistic service providers when using displays for ESL and smart cards. E Ink Mobius replaces the traditional glass substrate of a TFT with plastic material, creating a display which lightweight and rugged. For example a 13.3" Mobius display. weighs only 60 grams. This is great news for large-size mobile device manufacturers. E Ink Fina EPD uses a TFT technology employing a thin glass substrate to deliver a display product that is extra light and thin. This especially important for larger size mobile devices.

In R&D, E Ink's accomplishments can hardly be ignored with several major recognitions from local and international awards. At its first launch at the Society for Information Display (SID) in 2013, Spectra became an instant sensation for its brilliant red-black-white display and received the Best in Show award. Another recognition worth noting is the next generation Triton color e-paper that received the Outstanding Photonics award at 2013 Display Taiwan due to its excelled product performance enabled by a successful integration of a front light module.

Operation Highlights in 2014

With the increasing popularity of EPD in various applications such as ESL, mobile phones, wrist watches and electronic billboards, together with a comprehensive eco-system we have created with our business partners, and driven by the growth of eReader devices in Europe, Japan and other emerging markets, we are convinced the EPD markets will continue to grow in 2014. To achieve our performance objectives, we will implement the following operation strategies in 2014:

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

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



Vice Chairman: Felix Ho

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

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

(3) Actively establish the EPD ecosystem

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

(4) Provide diversified tailor-made services

E Ink has broad and in-depth technologies for e-paper devices. We have also had a number of advances in the development of new technologies and new applications. In the future, E Ink will continue to offer clients more options with better product and technology choices and diversified tailored-made services to further advance our operation performance.

(5) Continue to promote the TFT LCD niche markets

With regard to TFT LCD, E Ink will continue our strategy of a smaller production scale and OEM to reduce costs and strengthen competitiveness. In addition, E Ink will carefully select our customers and application markets to avoid price wars on low profit products by developing our niche markets in sectors such as aviation, vessels, automobiles, agricultural machinery, industrial control, medical services and entertainment.

(6) Continue patent cross licensing to expand the TFT LCD market based on our FFS technology

E Ink has entered into patent cross licensing agreements with well known display manufacturers including Japan's Sharp, AU Optronics, Chunghwa Picture Tubes, and Innolux Display. On the basis of equal treatment and mutual benefits, we are expanding the basis of our cooperation with other display manufacturers to jointly expand the TFT LCD market based on the FFS technology.

Prospect

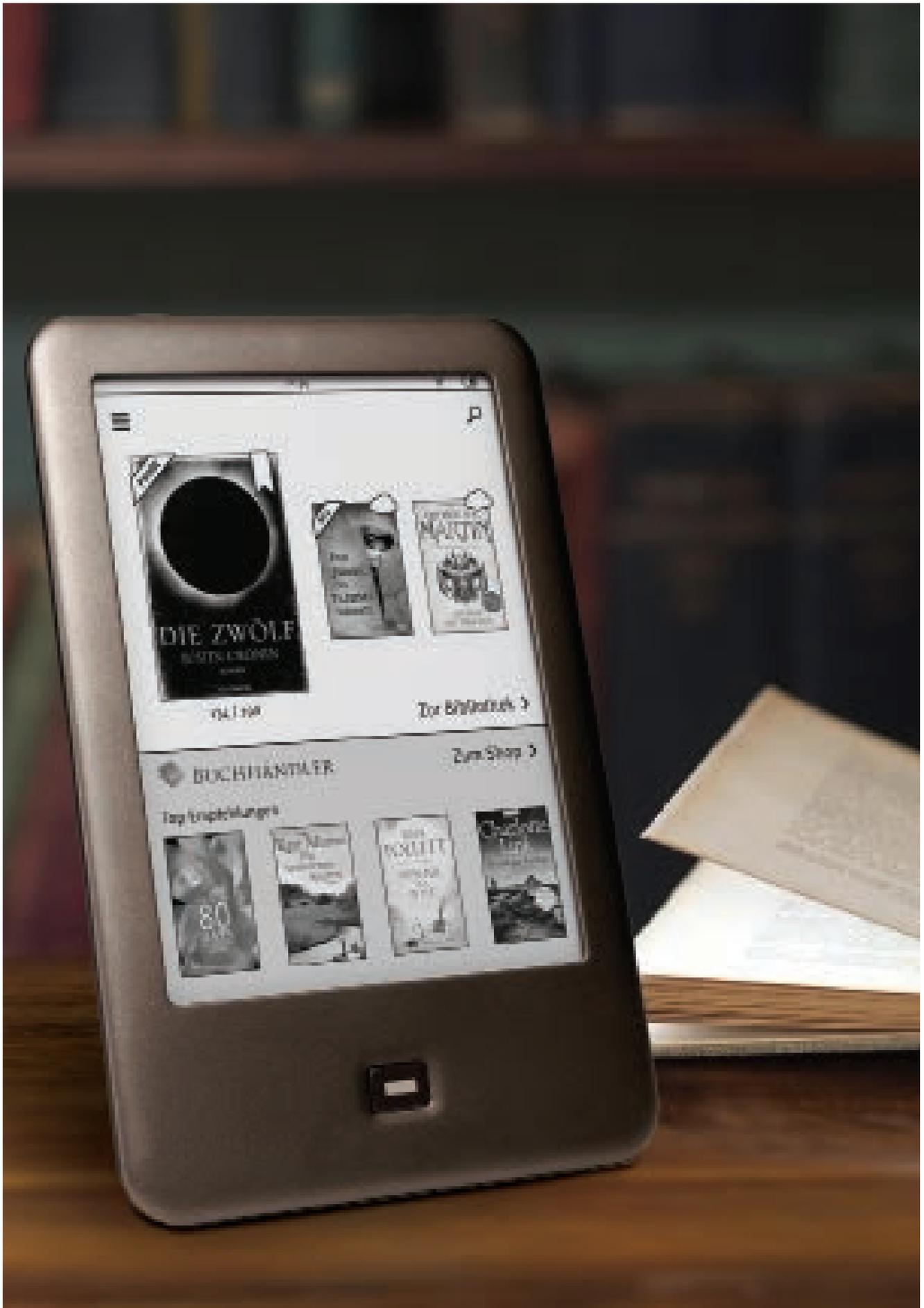
We have seen some preliminary accomplishments since our transformation efforts starting in 2012. With the ever growing popularity of the Internet of Things and portable devices, energy saving and lightweight/thinness/high efficiency have become an unstoppable trend into the future. We are optimistic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

We are sincerely thankful for our staff's long-term contribution to the Company, and all the support and recognition from our clients, partners, suppliers, shareholders and the public. We will do everything we can to lead all our staff to move along the set track and pragmatically implement the growth strategies we created to accomplish our goals.

E Ink Holding Inc.



Felix Ho
Vice Chairman





>> Financial Highlights

Condensed Balance Sheet

Unconsolidated

Unit : NT\$ thousands

Item	2009	2010	2011	2012	2013	31/03/2014	
Current Assets				13,944,015	12,999,748		
Property, plant and equipment				1,498,249	2,064,620		
Intangible assets				49,790	45,038		
Other Assets				29,132,178	27,551,124		
Total Assets				44,624,232	42,660,530		
Current Liabilities	Not applicable			Before Distribution	16,235,979	12,957,305	Not applicable
				After Distribution	16,235,979	(Note)	
Noncurrent Liabilities				4,545,900	3,934,138		
Total Liabilities				Before Distribution	20,781,879	16,891,443	
				After Distribution	20,781,879	(Note)	
Equity Attributable to Shareholders of the Parent				23,842,353	25,769,087		
Capital Stock				10,809,897	11,409,897		
Capital Surplus				9,686,700	10,073,700		
Retained Earnings				Before Distribution	3,855,157	3,669,033	
				After Distribution	3,855,157	(Note)	
Other equity				(483,507)	642,351		
Treasury shares				(25,894)	(25,894)		
Total Equity	Before Distribution	23,842,353	25,769,087				
	After Distribution	23,842,353	(Note)				

Note: Pending for shareholders' meeting resolution

Consolidated

Unit : NT\$ thousands

Item		2009	2010	2011	2012	2013	31/03/2014
Current Assets					18,520,690	14,216,444	12,998,251
Property, plant and equipment					10,194,178	9,835,142	9,612,495
Intangible assets					10,267,299	9,797,804	9,757,885
Other Assets					6,933,453	6,235,705	6,367,957
Total Assets					45,915,620	40,085,095	38,736,588
Current Liabilities	Before Distribution				14,945,285	8,561,571	7,882,317
	After Distribution				14,945,285	(Note)	(Note)
Noncurrent Liabilities					7,187,691	5,971,409	5,948,306
Total Liabilities	Before Distribution				22,132,976	14,532,980	13,830,623
	After Distribution				22,132,976	(Note)	(Note)
Equity Attributable to Shareholders of the Parent				Not applicable	23,842,353	25,769,087	25,084,497
Capital Stock					10,809,897	11,409,897	11,409,897
Capital Surplus					9,686,700	10,073,700	10,073,700
Retained Earnings	Before Distribution				3,855,157	3,669,033	2,622,961
	After Distribution				3,855,157	(Note)	(Note)
Other equity					(483,507)	642,351	1,003,833
Treasury shares					(25,894)	(25,894)	(25,894)
Non-Controlling Interests					(59,709)	(216,972)	(178,532)
Total Equity	Before Distribution				23,782,644	25,552,115	24,905,965
	After Distribution				23,782,644	(Note)	—

Note : Pending for shareholders' meeting resolution

Condensed Statement of Income

Unconsolidated

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

Item	2009	2010	2011	2012	2013	For the Year Ended 31/03/2014
Net Sales				13,359,855	14,427,628	Not applicable
Gross Profit				1,124,952	1,293,885	
Income from Operations				1,489	59,302	
Non-operating Income and Expenses				(568,143)	(16,413)	
Profit (Loss) Before Income Tax		Not applicable		(566,654)	42,889	
Net Income (Loss)				(748,222)	29,303	
Other comprehensive income (loss), net of income tax				(143,924)	1,131,137	
Total Comprehensive Income (Loss)				(892,146)	1,160,440	
Earnings (Loss) Per Share(Note)				(0.69)	0.03	

Note : Based on weighted average shares outstanding in each year

Consolidated

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

Item	2009	2010	2011	2012	2013	For the Year Ended 31/03/2014
Net Sales				26,704,782	18,905,129	2,961,823
Gross Profit				2,819,788	3,018,681	(47,177)
Income from Operations				(1,448,408)	(1,648,317)	(1,209,449)
Non-operating Income and Expenses				813,411	1,436,827	326,109
Profit (Loss) Before Income Tax				(634,997)	(211,490)	(883,340)
Net Income (Loss)				(1,082,407)	(36,009)	(979,988)
Other comprehensive income (loss), net of income tax				(140,248)	1,117,883	359,256
Total Comprehensive Income (Loss)				(1,222,655)	1,081,874	(620,732)
Total Net Income Attributable to Shareholders of the Parent			Not applicable	(748,222)	29,303	(964,785)
Total Net Income Attributable to Shareholders of the non-controlling interests				(334,185)	(65,312)	(15,203)
Total Comprehensive Income Attributable to Shareholders of the Parent				(892,146)	1,160,440	(603,303)
Total Comprehensive Income Attributable to Shareholders of the non-controlling interests				(330,509)	(78,566)	(17,429)
Earnings (Loss) Per Share(Note)				(0.69)	0.03	(0.85)

Note : Based on weighted average shares outstanding in each year

Auditors' Opinions from 2009 to 2013

Year	CPA Firm	CPA	Audit Opinion
2009	Deloitte & Touche	Chih-Ming Shao, Shu-Wan Lin	A Modified Unqualified Opinions
2010	Deloitte & Touche	Chih-Ming Shao, Shu-Wan Lin	A Modified Unqualified Opinions
2011	Deloitte & Touche	Chih-Ming Shao, Shu-Wan Lin	A Modified Unqualified Opinions
2012	Deloitte & Touche	Shu-Wan Lin, Cheng Hung Kuo	A Modified Unqualified Opinions
2013	Deloitte & Touche	Shu-Wan Lin, Ya Ling Wong	A Modified Unqualified Opinions

Financial Analysis

Unconsolidated

Item		2009	2010	2011	2012	2013	31/03/2014
Capital Structure Analysis (%)	Debt Ratio				46.57	39.60	Not applicable
	Long-term Fund to Fixed Assets Ratio				1,894.76	1,438.68	
Liquidity Analysis (%)	Current Ratio				85.88	100.33	
	Quick Ratio				81.22	88.60	
	Times Interest Earned				(5.37)	1.33	
Operating Performance Analysis	Average Collection Turnover				1.84	1.90	
	Days Sales Outstanding				198	191	
	Average Inventory Turnover				10.00	12.41	
	Average Inventory Turnover Days				1.14	1.16	
	Average Payment Turnover				36	29	
	Property, Plant and Equipment Turnover				8.92	6.99	
	Total Assets Turnover				0.30	0.33	
Profitability Analysis	Return on Total Assets				(1.53)	0.26	
	Return on Equity Attributable to Shareholders of the Parent				(2.89)	0.12	
	Pre-tax Income to Paid-in Capital Ratio				(5.24)	0.38	
	Net Margin				(5.60)	0.20	
	Earnings Per Share				(0.69)	0.03	
Cash Flow (%)	Cash Flow Ratio				18.79	(14.58)	
	Cash Flow Adequacy Ratio				139.38	103.84	
	Cash Flow Reinvestment Ratio				(0.51)	(4.91)	
Leverage	Operating Leverage				197.27	5.91	
	Financial Leverage				(0.02)	(1.50)	

Consolidated

Item		2009	2010	2011	2012	2013	31/03/2014
Capital Structure Analysis (%)	Debt Ratio				48.20	36.26	35.70
	Long-term Fund to Fixed Assets Ratio				304.39	322.73	322.84
Liquidity Analysis (%)	Current Ratio				123.92	166.05	164.90
	Quick Ratio				97.35	125.12	123.40
	Times Interest Earned				(0.62)	0.15	(23.89)
Operating Performance Analysis	Average Collection Turnover				3.23	3.65	4.70
	Days Sales Outstanding				112	99	77
	Average Inventory Turnover				5.21	4.82	3.90
	Average Inventory Turnover Days				4.44	4.10	5.51
	Average Payment Turnover				70	75	93
	Property, Plant and Equipment Turnover			Not applicable	2.67	1.89	1.22
	Total Assets Turnover				0.58	0.44	0.30
Profitability Analysis	Return on Total Assets				(1.27)	0.41	(2.36)
	Return on Equity Attributable to Shareholders of the Parent				(2.89)	0.12	(3.79)
	Pre-tax Income to Paid-in Capital Ratio				2.78	(1.28)	(7.61)
	Net Margin				(2.80)	0.16	(32.57)
	Earnings Per Share				(0.69)	0.03	(0.85)
Cash Flow (%)	Cash Flow Ratio				35.52	34.14	15.06
	Cash Flow Adequacy Ratio				87.97	113.14	130.82
	Cash Flow Reinvestment Ratio				4.08	5.55	2.25
Leverage	Operating Leverage				(0.42)	(0.25)	14.73
	Financial Leverage				0.88	0.90	0.54

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

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

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

(2) Days Sales Outstanding = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Inventory Turnover Days = 365 / Average Inventory Turnover

(5) Average Payment Turnover = Cost of Sales / Average Trade Payables

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

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

4. Profitability Analysis

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

5. Cash Flow

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

6. Leverage

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

COMPANY INTRODUCTION

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

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

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

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

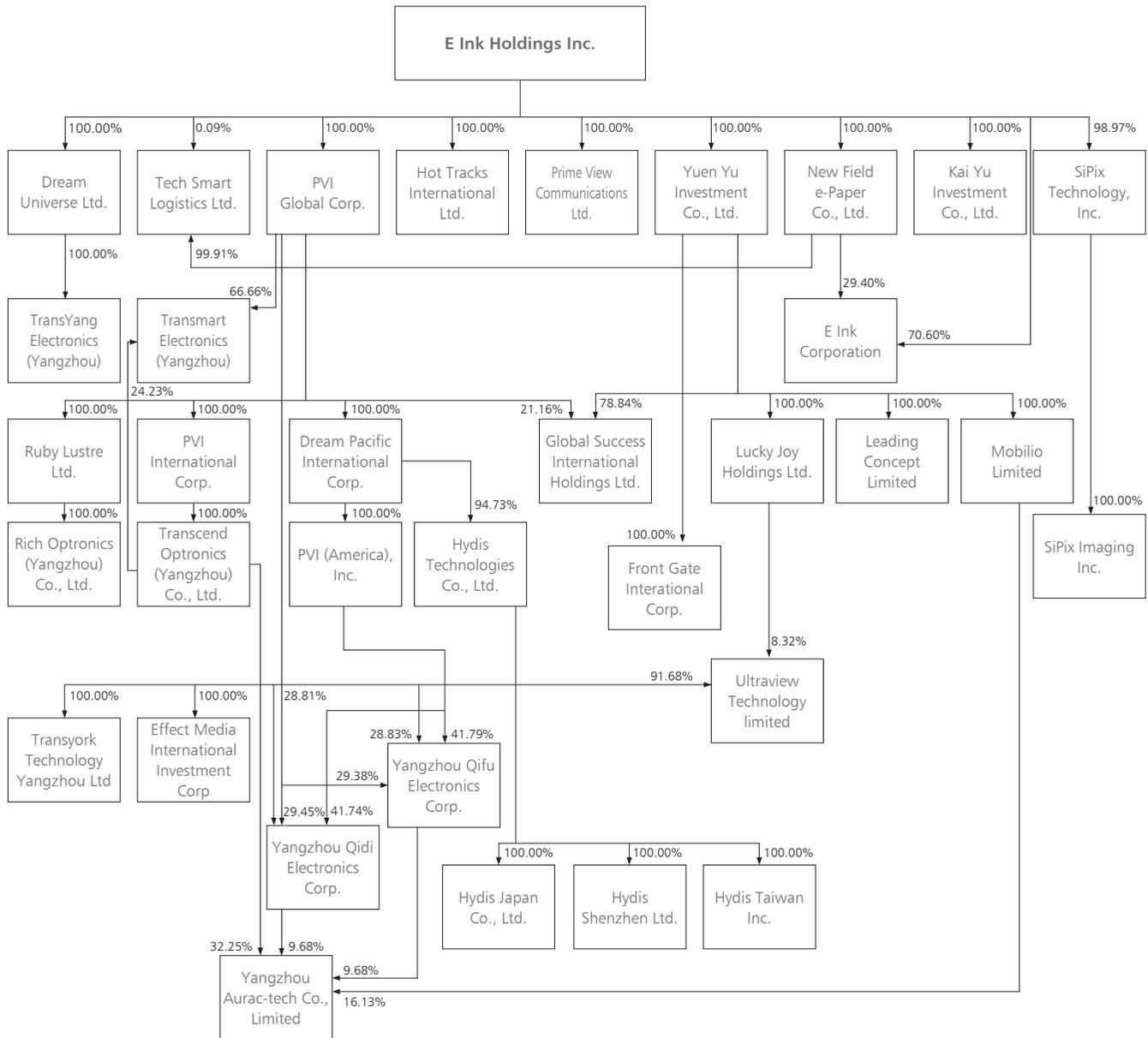
In 1997, E Ink Corporation was spun out of the MIT Media Lab to commercialize electronic ink and ePaper technology using TFTs from Philips Electronics. Seeing the potential of this new display medium, in 2005 E Ink Holdings acquired the ePaper business unit from Philips, and together with E Ink Corporation, 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.

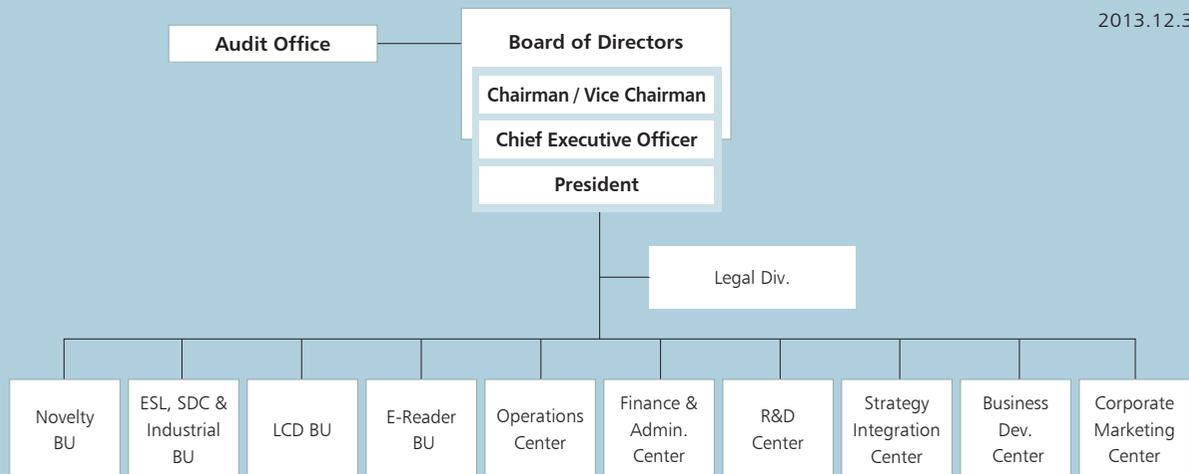
With new products like color, flexible, and touch-enabled ePaper, E Ink Holdings will lead the ePaper industry into a new era.

AFFILIATES AND SUBSIDIARIES





>> COMPANY ORGANIZATION



MANAGEMENT TEAM

TITLE / OFFICE	NAME	On-board Date (Note)
Interim CEO	Felix Ho	16-03-2012
Executive Advisor	Scott Liu	07-01-2003
President	C. C. Tsai	30-07-2010
Chief Operating Officer	C.H. Chiu	05-05-2008
Deputy Chief Business Development Officer	Johnson Lee	16-02-2006
Chief Financial Officer (Finance & Admin. Center)	Eddie Chen	01-08-2012
Chief Strategy Officer	Frank Ko	02-12-2013
Vice President (R&D Center)	James Hong	15-03-2010
Vice President (R&D Center)	Yung-Sheng Chang	01-02-1996
Vice President (Audit office)	Mico Yu	06-02-2012
Assistant Vice President (Novelty BU)	Wayne Huang	24-08-1998
Assistant Vice President (Operating Center)	Jui-Pin Wu	17-07-2001
Assistant Vice President (Operating Center)	Shaun Chen	16-11-2009
Assistant Vice President (Product Development Div.)	Tung-Liang Lin	25-05-1995
General Counsel (Legal Div.)	Suzanne Chou	11-10-2010
Assistant Vice President (Oversea Project)	Jason Lin	07-10-2009
Assistant Vice President (Oversea Project)	Luke Chen	01-10-2010
Assistant Vice President (Oversea Project)	Lloyd Chen	15-01-2010
Assistant Vice President (LCD BU)	Jeff Chang	07-06-2011
Assistant Vice President (Operating Center)	Mano Lo	09-12-2013
Lead Of Accounting (Finance & Admin. Center)	Jason CC Lin	26-03-2012

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

DIRECTORS AND SUPERVISORS

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

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





>> 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 94.65% of company revenue in 2013, with ESL and other products accounting for 5.35% of revenue.

Main Products

E Ink Holdings has two main product categories. One category is ePaper display products which are mainly used for eReaders, electronic shelf labels (ESL), mobile phones, and watches. The second category is small and medium size TFT-LCD panels and modules under 12.1 inches. Main usages for TFT-LCDs are for niche market applications, such as vehicles and entertainment systems, ship and air navigation, security monitoring systems, medical instruments, video phones, cameras, portable DVDs, digital photo frames, pachinko, industrial instruments and POS.



New Product Development

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

- (1) Development of new EPD and TFT-LCD modules aimed at meeting customer requirements in existing markets and required to expand into new market applications.
- (2) Product development for special market applications such as industrial, marine, and automotive displays.
- (3) Development of new manufacturing processes and use of new materials to improve the features of existing products to satisfy market trends and enhance product competitiveness.
- (4) Strengthening of international cooperation in manufacturing, resources and technology to develop a new generation of low-cost, low-power display technologies in order to lay the basis for sustainable development.

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

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

INDUSTRY OVERVIEW

Electronic Paper Display (EPD) Industry

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

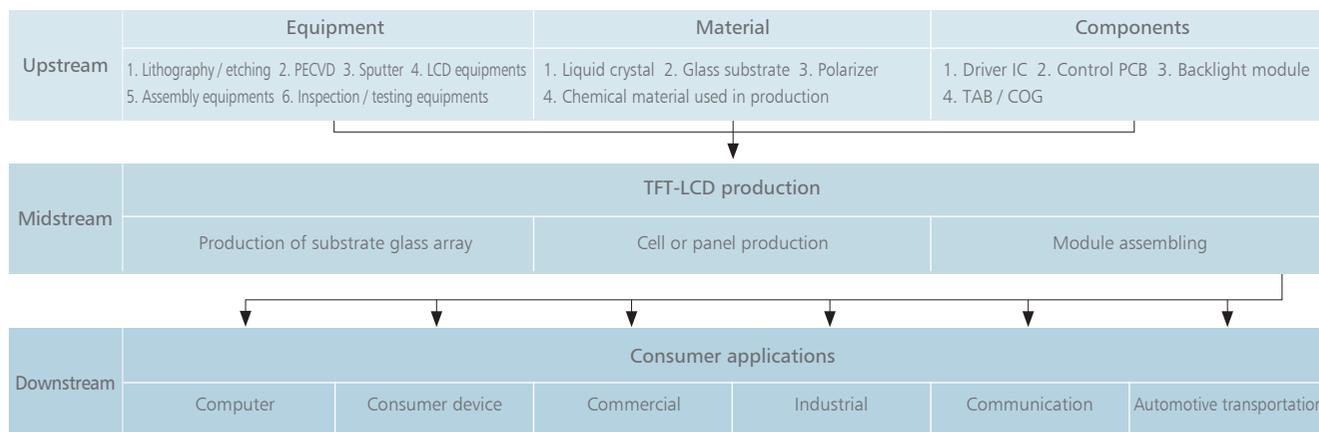
E Ink Corporation was founded in 1997 to commercialize electrophoretic ink. After several years of R&D, sample development and small scale production, electronic paper technology entered mass production in 2008. Further developments in electronic paper manufacturing technologies have led to an electronic paper portfolio that includes color, flexible, large-format and high resolution displays which include writable and touchable screens. These rich features enable development of products for different market applications such as eReaders, smart cards, electronic tags, clocks, phone button display, advertising billboards and a diverse range of applications.

Commercialization of ePaper displays began in 2000 when the TFT-LCD panel industry was experiencing rapid growth. In spite of EPD’s benefits of thinness (as paper), super low power consumption, wide viewing angle, and no need for backlighting, far fewer manufacturers entered this market when compared with those interested in TFT-LCD and AMOLED display technologies. In addition, E Ink Corporation had mastered the complex process for making electrophoretic ink and their technology is under IP protection, Consequently, E Ink Holdings became the world’s leading supplier of EPD products for years. However, after Amazon introduced its Kindle eReader, the market trend changed drastically and expanded EPD’s potential. Its future became even more attractive when AUO, the top leader of TFT-LCD industry, announced its entry into the EPD market with its acquisition of SiPix Technologies. Bridgestone decided to exit the market before bringing their product to mass production. In 2012, E ink Holdings acquired a controlling interest in SiPix maintaining its position as a leading supplier of epaper displays and giving it the capability to expand into more markets. This also makes Taiwan the leader in global electronic paper industry.

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

Global demand for small and medium sized LCDs is still mainly driven by cell phones and tablet computers. The total shipment volume for cell phone displays continues to grow by 4.2% compared to that of year 2012. For tablet computers, dimensions have started to shift towards larger sizes in 2014. With the exception of Apple, which may be releasing a 12.85-inch tablet computer, both Samsung and Asus are moving towards 12-inch products. Google started off by releasing the 8.9-inch Nexus, and the main competition would be Kindle Fire HDX 8.9 with very similar specifications. In addition to similar tablet dimensions, both of these products also have high resolutions that exceed 2K. The need for wide viewing angle technologies means that IPS and FFS will become more common.

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 production lines. The electronic paper supply chain is composed of the upstream industry for electronic ink suppliers, midstream industry for module manufacturers, and the downstream industry for brand owners. E Ink Holdings takes on the role of upstream supplier as well as midstream manufacturer of panels and modules.

Product Development Trends

1. Electronic Paper Display (EPD)

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

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

2. TFT-LCD

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

For consumer electronic products, E Ink Holdings will serve the tablet application as an OEM and keep its own capacity for meeting niche market demands from specific long term customers. Customers in the niche markets of TFT-LCD closely monitor their suppliers' capacity in product development, technical support, customization, and long term cooperation for military instrument panel, car navigation or entertainment system, ship and aviation navigation or digital display board, security and surveillance systems, medical equipment, and automotive and industrial dashboard. E Ink is now actively introducing its FFS technology into automotive applications and industrial control panels, as reinforcement to the existing niche markets.

Our company's FFS patents and technologies will be more commonly applied to smart phones and tablet computers. Small and medium sized tablets that make up the mainstay of our products will also incorporate FFS technologies. Automotive LCDs and industrial GPS are specifically demanding for FFS wide viewing angle technologies, and such demands will help our company in securing this niche market.

3. Electronic Shelf Label

Shelf labels made using electronic paper are lightweight and energy saving. These labels provide usability features matching that of ordinary paper, while allowing users to dynamically update prices from any location in a retail store. Through the use of a computer network, users are able to accurately update pricing instantaneously. The use of electronic paper labels also corresponds to the trend of goods management automation in large supermarkets and warehouses. Using electronic paper in labels will reduce the risks of wrong pricing and labeling, allow the store managers to instantly respond and update the promotion prices right from the floor, and facilitate price tag replacement over the network. In this highly competitive market, electronic labels effectively cut down the labor cost from manual label management. The use of computer networks for pricing updates can also reduce the amount of manpower required for manual updates. The ability to quickly update pricing provides brick and mortar stores to more effectively compete with online retailers by being able to rapidly respond to price changes and different merchandizing techniques used by online retailers. Bistability, one of the most important characteristics of electronic paper displays, means that electronic paper displays (EPDs) only consume electricity when reading and writing data. So long as the information on the EPD is unchanged, no energy is consumed. This helps satisfy the current trend for energy saving and greatly decrease the cost for electronic labels in supermarkets. Additionally, when compared to other displays, data on EPDs can still be seen at viewing angles that approach 180-degrees, allowing information to be seen further away or at slanted viewing angles. At the current stage, several supermarkets in Europe, including TESCO, have successively introduced the electronic shelf labeling system into their floor operations. In order to meet the demand for electronic labels, we have also developed low temperature electronic paper for goods stored in fridges or freezers as well as black, white and red electronic paper that can be used demarcate special pricing or sales promotions in addition to conventional black and white labels.

4. Smart Display Card

Electronic paper includes numerous pioneering and innovative technologies such as bistability, where data can be displayed without consuming electricity as well as the unique feature of flexibility. EPDs are also resistant to pressure, unlike LCDs which may crack or break when pressed. When used in IC cards, EPDs may be used to show the balance or bonus points accumulated in the card, and provide functions such as dynamic passwords. IC chips can also be embedded in cards for data security and provide features such as memory, verification, encryption and decryption, and data transfers. Smart Display Cards have now become a major trend for the modern financial IC card industry. We are now working with SinoPac Bank to launch OTP credit card. The system offers enhanced transaction security. We are also working with Kaohsiung MRT to launch the Smart Store-Value Card, which offers the users an easy way to check the balance.

Competition and Positioning

In 2013, E Ink Holdings continued to research and develop electronic paper products and technologies. In addition to continuous development of the existing black- and-white electronic paper modules and products, we have also released other electronic paper products that integrate for electronic labeling, flexibility, color, and touch-control. We have also continued to actively expand our production capacities to solidify our leading position in the electronic paper market. For TFT-LCD products, we will continue to focus on the development of touch technologies, FFS wide-angle technologies, and high-quality displays (military or automotive standards). To maintain its lead in the highly competitive market of display technology and ensure sustainable development of the Company, we focus on the special product needs of our niche customers, and invested a total of NT\$ 1.57 billion and NT\$ 422 million in 2013 and the first quarter of 2014.

As the new 6th, 7th and 8th generation production lines continue to expand, the older facilities will convert to the production of small-and medium-sized TFT-LCDs, thus increasing the total production capacity of small and medium sized products. This will lead to increased capacity and competition in small-and medium-sized TFT-LCD. In addition to being used in consumer electronics applications, small- and medium-sized TFT-LCD are also used for many special applications; these applications require higher level of integration and are often produced in small quantities and high variety. In these special application markets, E Ink Holdings keeps on providing its small-and medium-sized TFT-LCD products for customers with special requirements based on its accumulated experiences and long term relations. In spite of its limited production capacities, E Ink Holdings still maintains strong competitiveness in these special application markets offering our customers on-demand customization services.

RESEARCH AND DEVELOPMENT OVERVIEW

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Electronic Ink Technology

E Ink Carta™ is the newest generation of mass produced electronic ink products, and has the highest surface reflection to date with a 50% improvement in contrast ratio and 22% improvement in reflection when compared with the last generation of E Ink products. Texts and images are displayed in a crisp and detailed manner, allowing users to peruse the contents as comfortably as they would reading off printed paper. Carta is lightweight, environmentally friendly, and may be comfortably read for extended periods of time, making it suitable for eReaders, digital dictionaries, reference books, magazines and other future products to replace printed paper. Carta allows readers to enjoy the convenience of digital products without sacrificing the comfort provided by printed materials.

Color Electronic Paper - E Ink Triton™

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

Three-color E Ink technology

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

Flexible electronic paper

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

We have developed flexible electronic paper, E Ink Mobius™, that has similar applications to glass backed electronic paper for mobile devices and consumer electronics.

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

E Ink Holdings is now providing flexible electronic paper display modules to a leading brand for development of a large size electronic reader product. E Ink Holdings is now working extensively with multinational companies in plastic backed flexible electronic paper displays and modules for the development and mass production of larger electronic readers. Since its release, E Ink is now working closely with several renowned multinational companies to develop and manufacture plastic-backed Mobius electronic paper display modules, and this product has been received with overwhelming responses in the market.

Touchable Electronic Paper Display

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

Super High Resolution EPD products

The resolution of commercially available e-readers typically falls in the range of 150 ~ 200 ppi (pixel per inch). While this is adequate for text based leisure devices, some business settings requiring the use of complex charting and image rendering, and customers may need a resolution of

300 ppi or even higher. In 2011, E Ink launched 9.7-inch and 11.5-inch high-definition black-and-white electronic paper modules with 300 ppi, which have been offered to several customers for designing-in applications.

Fringe Field Switching (FFS) technology

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

BUSINESS DEVELOPMENT OBJECTIVES

Short-Term Business Development Objectives

1. Follow product trends to provide customers with upgraded new products, support customers during their product design life cycle, effectively share initial development costs, and diversify the applications using E Ink displays.
2. Improve product quality for adoption and acceptance by more leading global companies.
3. Enhance manufacturing yield and production capacity at panel and module plants.
4. Establish local support services for the United States, Europe, China and Japan, and strengthen distribution channels in these markets.
5. Continue to penetrate new application markets.

Long-Term Business Development Objectives

1. Seek international cooperation to develop advanced display technologies and associated applications. Continued development and improvement of advanced technology to ensure E Ink's leading role in the technology supply chain.
2. Develop long term and effective marketing channels for smooth interactions between production and technology units to effectively support overall and individual growth and to create win-win developments.
3. Maintain a leading position in product development.

MARKET OVERVIEW

Market and supply-demand Analysis

1. Analysis of the electronic paper market

The market for electronic paper is currently growing. The applications of electronic paper applications are slowly expanding to other products in addition to electronic readers. This trend is especially significant in 2013. In the past, E Ink Holdings has been regarded by outsiders as a company that manufactures electronic readers. We are now a company capable of transforming innovative designs and products into numerous possibilities. Electronic paper provides many advantages such as low energy consumption, comfortable reading, and flexibility. It can be widely applied for many different products and meet various customer special requirements.

(1) Market for the electronic readers

The market for e-books and electronic readers is stable as the debate on the replacement of electronic readers by tablets has gradually subsided. In 2013, our customers began to release new electronic readers, and information provided by market surveillance institutions provides additional proof. Firstly, E Ink Holdings customers have continuously released electronic readers, including Kobo Aura HD by Rakuten, Tolino Shine by Deutschen Telekom, and Kindle Paperwhite by Amazon, which utilizes the newest Carta electronic paper technology.

Additionally, information from market surveillance firms also supports this argument. According to the Pew Research Center, electronic readers are still the most popular e-book readers and are also becoming more ubiquitous. Currently, over one-third of American adults own an electronic reader. With the release of various new products for commercial applications, the market for electronic readers has also begun to diversify.

SONY announced in the second quarter of 2013 that it would begin to market DPS-T1 commercial e-reader in the 4th quarter of 2013. DPS-T1 will utilize a large 13.3" electronic paper display and target business markets such as legal, medical, and real estate industries that require the processing of large amounts of documents and information. The first batch was sold out within a couple of days. Hence, E Ink Holdings remains optimistic for the market of electronic readers in 2014. According to the study from IHS market surveillance institution, the market for electronic readers will range from 12-15 million units.

(2) Electronic shelf labels

After successfully securing the market of electronic readers, E Ink launched several investment projects for development of other applications.

Currently, only a small portion of the retail market is using electronic shelf labels. Most are still using paper labels to display product information. This situation is undergoing subtle changes as the applications for electronic shelf labels are expanding rapidly. Currently, the biggest users are retailers in the European Union, followed closely by those in the Asian and North American regions. This growth is partly driven by laws that require accurate pricing as well as market competition. In order to compete with online shops, retailers are forced to adapt to rapid price changes in response to market conditions. By using electronic shelf labels, retailers can ensure the accuracy and correctness of their prices and change prices as quickly as their online competitors.

(3) Other markets

Since 2012, E Ink Holdings has been committed to expanding beyond the market of electronic readers. In 2013, we saw E Ink electronic paper displays being adopted in new products and in new markets.

A. Mobile devices

E Ink EPD displays can be widely used for smartphones. The first electronic paper phone, Yota Phone, was regarded as the biggest innovation in cellular phones since the release of the iPhone series, and has received a lot of media attention. The first generation YotaPhone was released to mass production in 2013, and has been sold in 5 countries in Eastern and Western Europe. The new generation of YotaPhone was formally announced in the Mobile World Congress (MWC) in February 2014 and continues to receive attention from the media.

In 2013, E Ink electronic paper received a lot of media attention because it was incorporated into the release of YotaPhone.. We expect sales volume to keep increasing with the announcement of the 2nd generation of YotaPhone in 2014. Additionally, more and more cellular phone designers have contacted E Ink Holdings to inquire about possible collaborative projects with electronic paper applications.

B. Transport and logistics

Vanguard ID integrated E Ink EPDs into electronic baggage tags in 2013, drawing attention from many airlines. Electronic baggage tags are poised to replace printed baggage labels and allow airlines to track passenger luggage to reduce the possibility and cost of lost baggage.

C. Health, medication, sports, and recreation

E Ink EPDs are also being used in the newest blood glucose meters produced by famous international pharmaceutical companies. This device was announced in Europe in the 4th quarter of 2013. IHS and other market surveillance firms believe that the healthcare and pharmaceutical market is poised for tremendous growth in the future in terms of number of devices and value of the products.

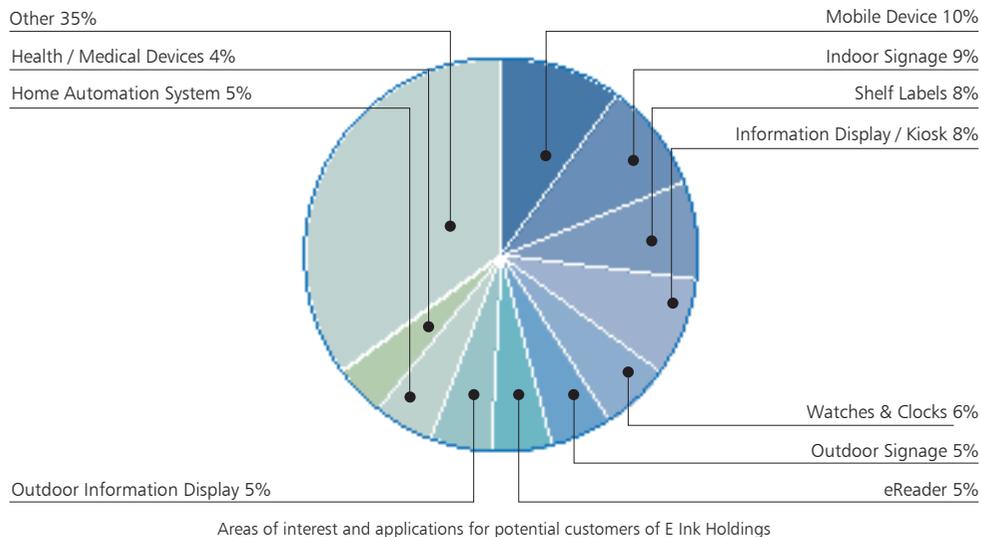
D. Large dimension advertisement panels

This applications market is growing slowly. E Ink EPDs have the advantages of low energy consumption, lightweight, and visibility under strong sunlight, making them suitable for large dimension advertisement panels. A large electronic paper digital display has been installed in the North Delegate Lounge within New York's UN headquarters. The display measures 6 meters wide and 1 meter high, and is composed of 231 pieces of display panels arranged together. Electronic paper digital displays have great market potential and are suitable for various information booths, bulletin boards, and advertisement panels. Although this market has just taken off, related products can take up a large portion of the production capacity.

E. Summary

Market diversification strategies have started generating positive effects for E Ink Holdings. Product design projects integrating electronic paper technologies will continue to grow in terms of production capacity in 2014 and in the following years. More importantly, the development of diverse product applications can prevent the risk of over-reliance on a single consumer product or market and help establish a good foundation for future growth.

E Ink Holdings has grown from an internationally renowned producer of EPDs for electronic readers to supplying EPDs for various products and applications. The figure below show the statistics of new customer leads. E Ink Holdings customer leads have become more diverse and come from different industries.



2. Analysis on medium and small size TFT-LCD

In 2013, the LCD business group of E Ink Holdings focused on improving efficiency and profitability. Our subsidiary, Hydis, owns the patent on wide-viewing angle FFS which is already widely applied for many high-end LCD products. Hydis focuses on the niche market that provides high investment returns for small and medium sized displays requiring wide viewing angle FFS, such as those in healthcare, automotive, and navigational applications. A report from NPD DisplaySearch also pointed out that shipment volumes for flat panel displays will either stagnate or decline. The same also applies for small and medium sized displays. Market size is currently 800 million USD per month. Our focus on products with high profitability is a correct and feasible sales strategy.

Hydis will continue to license FFS technology for royalties. High-end LCD displays and smart phone products are produced using FFS licenses. In 2013, Innolux Corporation signed a FFS licensing agreement. We are also engaged in similar licensing discussions with other LCD manufacturers. FFS, which is sometimes known as IPS, has become the basic component of tablets, smart phones, and notebook computer displays by brands such as Apple, Samsung, HTC and other international brands.

3. Competitive niches

E Ink Holdings has always held a unique and competitive position in terms of both product selection and technology. We have strong customer foundations for EPDs and several types of LCDs. The low energy consumption of EPD products make numerous product designs possible, some of which cannot be achieved through conventional LCDs. FFS displays, when compared to conventional LCDs, have advantages such as wide viewing angles, lower energy consumption, and good visibility under strong sunlight. E Ink Holdings is well-versed with the market of our customers' products, and we will continue to provide displays that meet customer requirements and help facilitate the introduction of these products to the market.

(1) Familiarity with small- and medium-sized products and applications

Since our establishment in June 1992, we have focused on small- and medium-sized TFT-LCD modules and have established a sales strategy that is based on technical support and services. We have expanded our product series and continue to develop new collaborative relationships with long-term clients. We have made long-term investments and accumulated numerous invaluable resources and experiences, and have a good understanding of our customers and their respective markets.

(2) A comprehensive product series that meet market needs

Our company has a series of EPD and small- and medium-sized TFT-LCD products. Through close interaction with customers and the market, we are able to accurately predict market trends and invest the right amounts of resources and manpower to develop products that future markets need and help our clients seize market initiatives.

(3) Commitment to healthy customer relationships

We are committed to building a win-win relationship with our customers. We also provide dedicated support and troubleshooting for customers with development potential to help them become one of our mainstay customers.

(4) Rapid product development

Whether its product development in response to market requirements or customized projects, E Ink Holdings fully utilizes our exclusive process and R&D core technologies as well as experiences in long-term technology development and market projects to release products needed by the market (Time to Market).

(5) Lowest product development costs

In order to achieve a competitive advantage, E Ink Holdings is committed to cost control to provide economic pricing and satisfy requirements for product trials during preliminary stages of market introduction for new small and medium sized products. For customers who want to develop customized products, our economic product development packages are less cost-inhibitive.

(6) Command over sales channels and regional markets

US: Provides sufficient R&D resources and market information for developing mainstay products that meet our customer or consumer requirements. In order to achieve initiatives in product development, E Ink Holdings has introduced design services in the early stages of product development at our end market and R&D resources in the US. This allows us to interact with our sales channels and various international brands for increasing the proportion of direct and indirect sales in the US. We also improved pre- and post-sales services for our sales networks to ensure growing sales in the US region.

Europe: A good industrial base and traditional culture have generated a creative environment that is perfect for coming up with a new generation of electronic products. E Ink Holdings has established a European market and provides support for our customers to develop creative products that are more capable of meeting market demands and seize market initiatives during the early phases of the product life cycle.

China and major supply chains: China is the world's manufacturing base and mainly provides consumer goods to the rest of the world. Manufacturers of electronic paper displays and TFT-LCD consumer goods are also concentrated in the Asia-Pacific Region. E Ink Holdings has taken advantage of this trend and has established sales locations in China, Hong Kong, and Korea. By providing rapid technical support and services to our clients, especially through the advantages of sharing common languages and cultures with China and Hong Kong, we are able to build customer trust and obtain large production orders

4. Factors for and against development and coping strategies

(1) Favorable factors

A. In terms of the technical perspective, we have acquired Hydis Technologies of Korea in 2008, E Ink in December 2009, and SiPix Technologies in 2012, allowing E Ink Holdings to secure patent protection for FFS LCD and electrophoretic EPD technologies. We have further integrated upstream and midstream supply chain elements for LCD and EPD products to reduce cost and maintain our leading position in the industry.

B. For production capacity utilization, we have achieved strategic partnerships with our partners and flexibly adjusted TFT-LCD production capacity for the Korean Hydis facility to satisfy market demands, increase production capacity utilization, and reduce costs for improved profitability.

C. For LCD and EPD product business strategies, in addition to our focus on cellular phones, tablets and electronic readers, we have also began to concentrate on developing other product applications, working extensively with our clients to develop new niche markets to expand the number of new projects and market coverage.

(2) Unfavorable factors and coping strategies

A. 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 established win-win systems with other display manufacturers to flexibly allocate production capacities with our strategic partners and help maintain our competitiveness.

B. The market for electronic readers is under competitive pressure from tablet computers, which may further restrict shipping volume and profitability for E Ink Holdings products.

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



>> E INK HOLDINGS INC.

Financial Statements for the
Years Ended December 31, 2013 and 2012 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders

E Ink Holdings Inc.

We have audited the accompanying balance sheets of E Ink Holdings Inc. (the "Corporation") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of BOE Mobile Display Technology Co., Ltd., as of December 31, 2013 and 2012, the investments in which the Corporation had equity-method investments by Hydis Technologies Co., Ltd. The investments amounted to NT\$175,316 thousand, NT\$188,713 thousand and NT\$176,378 thousand as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively, which accounted for about 0.4% of the Corporation's total assets as of the above date. The Corporation's equity of NT\$12,577 thousand and NT\$12,335 thousand in their comprehensive income in 2013 and 2012 were about 1.1% and 1.4%, respectively, of the Corporation's total comprehensive income (loss). The investee's financial statements were audited by other auditors whose reports have been furnished to us, and, our opinion, insofar as it relates to the amounts included for the investee, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of E Ink Holdings Inc. as of December 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

March 20, 2014

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 applied in the Republic of China.

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

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 1,767,590	4	\$ 3,255,645	7	\$ 2,140,525	5
Financial assets at fair value through profit or loss (Notes 4 and 7)	1,498,361	4	-	-	238	-
Accounts receivable (Note 4)	205,661	-	412,437	1	448,217	1
Accounts receivable from related parties (Notes 4 and 22)	7,108,474	17	7,446,498	17	6,204,429	14
Other receivables from related parties (Note 22)	825,473	2	2,028,376	5	1,186,480	3
Inventories (Notes 4 and 10)	1,434,873	3	682,359	1	1,765,059	4
Prepayments	84,267	-	74,855	-	695,209	2
Other current assets	75,049	-	43,845	-	32,586	-
Total current assets	12,999,748	30	13,944,015	31	12,472,743	29
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (Notes 4 and 7)	-	-	1,431,150	3	1,411,950	3
Available-for-sale financial assets (Note 4)	766,310	2	614,444	2	331,247	1
Financial assets measured at cost (Notes 4 and 8)	77,601	-	77,601	-	77,601	-
Debt investment with no active market (Notes 4 and 9)	-	-	885,720	2	923,388	2
Investments accounted for using equity method (Notes 4 and 11)	26,453,736	62	25,911,497	58	26,065,964	61
Property, plant and equipment (Notes 4, 12 and 22)	2,064,620	5	1,498,249	3	1,575,086	4
Other intangible assets (Note 4)	45,038	-	49,790	-	67,403	-
Deferred tax assets (Notes 4 and 17)	209,144	1	176,970	1	141,780	-
Other non-current assets (Notes 4 and 14)	44,333	-	34,796	-	65,405	-
Total non-current assets	29,660,782	70	30,680,217	69	30,659,824	71
TOTAL	\$ 42,660,530	100	\$ 44,624,232	100	\$ 43,132,567	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 13)	\$ 149,025	1	\$ 1,390,000	3	\$ -	-
Accounts payable	1,257,374	3	2,476,402	6	822,580	2
Accounts payable to related parties (Note 22)	9,045,728	21	9,855,565	22	8,341,365	19
Other payables	412,017	1	491,308	1	780,179	2
Current tax liabilities (Notes 4 and 17)	32,429	-	187,504	1	142,682	-
Receipts in advance (Note 22)	248,031	1	56,148	-	31,336	-
Current portion of long-term borrowings (Note 13)	1,780,629	4	1,771,886	4	-	-
Other current liabilities (Note 22)	32,072	-	7,166	-	4,599	-
Total current liabilities	12,957,305	31	16,235,979	37	10,122,741	23
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 13)	3,870,943	9	4,429,714	10	5,061,000	12
Other non-current liabilities (Notes 4, 11, 14, 17 and 22)	63,195	-	116,186	-	128	-
Total non-current liabilities	3,934,138	9	4,545,900	10	5,061,128	12
Total liabilities	16,891,443	40	20,781,879	47	15,183,869	35
EQUITY (Notes 14, 15 and 19)						
Share capital	11,409,897	27	10,809,897	24	10,801,778	25
Capital surplus	10,073,700	24	9,686,700	22	9,669,721	23
Retain earnings						
Legal reserve	1,055,476	2	1,055,476	2	402,798	1
Special reserve	483,507	1	271,435	-	704,456	2
Unappropriated earnings	2,130,050	5	2,528,246	6	6,737,952	15
Total retain earnings	3,669,033	8	3,855,157	8	7,845,206	18
Other equity	642,351	1	(483,507)	(1)	(342,113)	(1)
Treasury shares	(25,894)	-	(25,894)	-	(25,894)	-
Total equity	25,769,087	60	23,842,353	53	27,948,698	65
TOTAL	\$ 42,660,530	100	\$ 44,624,232	100	\$ 43,132,567	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)

STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2013		2012	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 22)	\$ 14,427,628	100	\$ 13,359,855	100
OPERATING COSTS (Notes 10, 14, 16 and 22)	13,133,743	91	12,234,903	92
GROSS PROFIT	1,293,885	9	1,124,952	8
OPERATING EXPENSES (Notes 14, 16 and 22)				
Selling and marketing expenses	121,963	1	122,889	1
General and administrative expenses	589,765	4	530,522	4
Research and development expenses	522,855	4	470,052	3
Total operating expenses	1,234,583	9	1,123,463	8
PROFIT FROM OPERATIONS	59,302	-	1,489	-
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 22)	35,116	-	58,223	1
Royalty income (Note 22)	30,716	-	48,634	-
Other income	95,592	1	128,717	1
Interest expense (Note 12)	(98,912)	(1)	(93,328)	(1)
Share of profit or loss of subsidiaries and associates	(175,617)	(1)	(772,136)	(6)
Gain on disposal of property, plant and equipment (Note 22)	-	-	69,718	1
Net gain on foreign currency exchange	38,803	-	11,938	-
Net gain on fair value change of financial assets at fair value through profit or loss	67,211	1	-	-
Other expenses	(9,322)	-	(19,909)	-
Total non-operating income and expenses	(16,413)	-	(568,143)	(4)
PROFIT (LOSS) BEFORE INCOME TAX	42,889	-	(566,654)	(4)
INCOME TAX EXPENSE (Notes 4 and 17)	(13,586)	-	(181,568)	(2)
NET PROFIT (LOSS) FOR THE YEAR	29,303	-	(748,222)	(6)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain on available-for-sale financial assets	151,866	1	147,710	1
Actuarial loss arising from defined benefit plans (Notes 4 and 14)	(10,449)	-	(3,049)	-
Share of other comprehensive income (loss) of subsidiaries	987,944	7	(289,104)	(2)
Income tax relating to components of other comprehensive income (loss) (Notes 4 and 17)	1,776	-	519	-
Other comprehensive income (loss) for the year, net of income tax	1,131,137	8	(143,924)	(1)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ 1,160,440	8	\$ (892,146)	(7)
EARNINGS (LOSS) PER SHARE (Note 18)				
Basic	\$ 0.03		\$ (0.69)	

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)(Concluded)

STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital		Capital Surplus
	Shares (Thousands)	Amount	
BALANCE AT JANUARY 1, 2012	1,080,173	10,801,778	\$ 9,669,721
Appropriation of 2011 earnings			
Reversal of special reserve	-	-	-
Legal reserve	-	-	-
Cash dividends - \$3 per share	-	-	-
Net loss for the year ended December 31, 2012	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2012	-	-	-
Partial acquisition of interests in subsidiaries	-	-	-
Change in capital surplus from investments in subsidiaries accounted for by using equity method	-	-	8,190
Conversion of employee share options	817	8,119	8,789
BALANCE AT DECEMBER 31, 2012	1,080,990	10,809,897	9,686,700
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-
Special reserve	-	-	-
Net profit for the year ended December 31, 2013	-	-	-
Other comprehensive income for the year ended December 31, 2013, net of income tax	-	-	-
Total comprehensive income for the year ended December 31, 2013	-	-	-
Private issue of ordinary shares for cash - July	60,000	600,000	387,000
Change in equity from investments in associates accounted for by using equity method	-	-	-
Partial acquisition of interests in subsidiaries	-	-	-
BALANCE AT DECEMBER 31, 2013	1,140,990	11,409,897	\$ 10,073,700

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)

Retained Earnings			Other Equity			Treasury Shares	Total Equity
Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets			
\$ 402,798	\$ 704,456	\$ 6,737,952	\$ -	\$ (342,113)	\$ (25,894)	\$ 27,948,698	
-	(433,021)	433,021	-	-	-	-	
652,678	-	(652,678)	-	-	-	-	
-	-	(3,239,278)	-	-	-	(3,239,278)	
-	-	(748,222)	-	-	-	(748,222)	
-	-	(2,530)	(559,205)	417,811	-	(143,924)	
-	-	(750,752)	(559,205)	417,811	-	(892,146)	
-	-	(19)	-	-	-	(19)	
-	-	-	-	-	-	8,190	
-	-	-	-	-	-	16,908	
1,055,476	271,435	2,528,246	(559,205)	75,698	(25,894)	23,842,353	
-	70,678	(70,678)	-	-	-	-	
-	141,394	(141,394)	-	-	-	-	
-	-	29,303	-	-	-	29,303	
-	-	5,279	620,774	505,084	-	1,131,137	
-	-	34,582	620,774	505,084	-	1,160,440	
-	-	-	-	-	-	987,000	
-	-	(25,705)	-	-	-	(25,705)	
-	-	(195,001)	-	-	-	(195,001)	
<u>\$ 1,055,476</u>	<u>\$ 483,507</u>	<u>\$ 2,130,050</u>	<u>\$ 61,569</u>	<u>\$ 580,782</u>	<u>\$ (25,894)</u>	<u>\$ 25,769,087</u>	

STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 42,889	\$ (566,654)
Adjustments for:		
Depreciation expenses	257,580	229,362
Amortization expenses	33,744	62,879
Net loss (gain) on fair value change of financial assets at fair value through profit or loss	(67,211)	18,706
Interest expense	98,912	93,328
Interest income	(35,116)	(58,223)
Dividend income	(16,639)	(11,574)
Share of loss of subsidiaries and associates	175,617	772,136
Net gain on disposal of property, plant and equipment	-	(69,718)
Impairment loss recognized on non-financial assets	9,322	-
Write-down of inventories	77,000	100,000
Unrealized net loss (gain) on foreign currency exchange	80,359	(40,254)
Royalty income	(30,716)	(48,634)
Changes in operating assets and liabilities		
Accounts receivable	209,299	33,559
Accounts receivable from related parties	406,482	(1,287,734)
Inventories	(829,514)	982,700
Prepayments	(32,106)	57,166
Other current assets	(31,077)	(11,263)
Accounts payable	(1,246,661)	1,669,297
Accounts payable to related parties	(943,015)	1,606,452
Other payables	(61,942)	(353,109)
Receipts in advance	200,969	34,724
Other current liabilities	16,176	3,774
Cash generated from (used in) operations	(1,685,648)	3,216,920
Income tax paid	(203,992)	(166,484)
Net cash generated from (used in) operating activities	(1,889,640)	3,050,436
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	-	(135,487)
Proceeds on sale of debt investments with no active market	885,720	-
Acquisition of subsidiaries	-	(1,339,066)
Payments for property, plant and equipment	(823,913)	(163,411)
Decrease in other receivables from related parties	1,234,133	414,353
Payments for intangible assets	(22,888)	(21,981)
Increase in other non-current assets	(1,953)	(5,703)
Interest received	34,989	58,227
Dividends received	33,368	20,070
Net cash generated from (used in) investing activities	1,339,456	(1,172,998)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	(1,242,000)	1,390,000
Proceeds from long-term borrowings	1,200,000	1,190,000
Repayments of long-term borrowings	(1,769,542)	-
Increase (decrease) in other non-current liabilities	(2)	122,761
Cash dividends paid	-	(3,239,278)
Proceeds from issue of ordinary shares	987,000	-
Conversion of employee share options	-	16,908
Payments for partial acquisition of interests in subsidiaries	(7,024)	(154,542)
Interest paid	(106,303)	(88,167)
Net cash used in financing activities	(937,871)	(762,318)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,488,055)	1,115,120
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,255,645	2,140,525
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 1,767,590	\$ 3,255,645

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)(Concluded)

E INK HOLDINGS INC. AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended
December 31, 2013 and 2012 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders

E Ink Holdings Inc.

We have audited the accompanying consolidated balance sheets of E Ink Holdings Inc. and its subsidiaries (the "Corporation") as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of BOE Mobile Display Technology Co., Ltd., as of December 31, 2013 and 2012, respectively. The investments amounted to NT\$175,316 thousand, NT\$188,713 thousand and NT\$176,378 thousand as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively, which accounted for about 0.4% of the Corporation's total assets as of the above date. The Corporation's equity of NT\$12,577 thousand and NT\$12,335 thousand in their comprehensive income in 2013 and 2012 were about 1.2% and 1.0%, respectively, of the Corporation's total comprehensive income (loss). The investee's financial statements were audited by other auditors whose reports have been furnished to us, and, our opinion, insofar as it relates to the amounts included for the investee, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2013, December 31, 2012 and January 1, 2012, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity 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 by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of E Ink Holdings Inc. as of and for the years ended December 31, 2013 and 2012 on which we have issued a modified unqualified report.

March 20, 2014

Notice to Readers

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

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

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 4,664,263	11	\$ 6,890,362	15	\$ 4,373,327	9
Financial assets at fair value through profit or loss (Notes 4 and 7)	1,586,260	4	168,260	-	238	-
Notes and accounts receivable (Notes 4 and 10)	3,499,785	9	6,775,984	15	9,432,609	20
Accounts receivable from related parties (Notes 4 and 27)	27,776	-	43,454	-	272,372	1
Inventories (Notes 4 and 11)	3,197,831	8	3,399,110	7	5,773,028	13
Prepayments (Note 27)	306,778	1	572,535	1	451,668	1
Other current assets (Notes 4, 19 and 28)	933,751	2	670,985	2	349,643	1
Total current assets	14,216,444	35	18,520,690	40	20,652,885	45
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (Notes 4 and 7)	259,929	1	1,682,655	4	1,672,015	4
Available-for-sale financial assets (Notes 4 and 8)	2,044,551	5	1,539,466	3	985,957	2
Financial assets measured at cost (Notes 4 and 9)	2,833,107	7	2,730,367	6	2,635,442	6
Investments accounted for using equity method (Note 4)	237,271	1	271,748	1	282,542	-
Property, plant and equipment (Notes 4, 12 and 28)	9,835,142	24	10,194,178	22	9,821,881	21
Goodwill (Notes 4, 13 and 22)	6,761,078	17	6,732,067	15	6,062,358	13
Other intangible assets (Notes 4 and 13)	3,036,726	8	3,535,232	8	3,179,627	7
Deferred tax assets (Notes 4 and 19)	604,725	1	471,877	1	537,771	1
Other non-current assets (Notes 4, 16, 27 and 28)	256,122	1	237,340	-	413,864	1
Total non-current assets	25,868,651	65	27,394,930	60	25,591,457	55
TOTAL	\$ 40,085,095	100	\$ 45,915,620	100	\$ 46,244,342	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 14)	\$ 894,150	2	\$ 3,878,689	9	\$ 909,069	2
Accounts payable	2,478,235	6	5,176,708	11	5,533,246	12
Accounts payable to related parties (Note 27)	66,420	-	23,928	-	33,896	-
Other payables (Note 22)	1,416,847	4	1,712,376	4	1,921,174	4
Current tax liabilities (Notes 4 and 19)	38,074	-	188,907	-	159,470	-
Receipts in advance	992,165	3	656,469	1	189,226	-
Current portion of long-term borrowings and bonds payable (Notes 14 and 28)	2,419,308	6	3,116,320	7	30,275	-
Current portion of long-term payables to related parties (Notes 15 and 27)	118,171	-	-	-	-	-
Other current liabilities	138,201	-	191,888	-	196,256	1
Total current liabilities	8,561,571	21	14,945,285	32	8,972,612	19
NON-CURRENT LIABILITIES						
Bonds payable (Note 15)	-	-	-	-	601,973	1
Long-term borrowings (Notes 14 and 28)	4,877,848	12	6,135,908	13	7,425,079	16
Accrued pension liabilities (Notes 4 and 16)	397,056	1	769,321	2	683,612	2
Long-term payables to related parties (Notes 15 and 27)	452,360	1	-	-	-	-
Other non-current liabilities (Notes 4, 15 and 19)	244,145	1	282,462	1	444,515	1
Total non-current liabilities	5,971,409	15	7,187,691	16	9,155,179	20
Total liabilities	14,532,980	36	22,132,976	48	18,127,791	39

(Continued)

LIABILITIES AND EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 16, 17 and 21)						
Share capital	\$ 11,409,897	28	\$ 10,809,897	24	\$ 10,801,778	24
Capital surplus	10,073,700	25	9,686,700	21	9,669,721	21
Retain earnings						
Legal reserve	1,055,476	3	1,055,476	2	402,798	1
Special reserve	483,507	1	271,435	1	704,456	1
Unappropriated earnings	2,130,050	5	2,528,246	5	6,737,952	15
Total retain earnings	3,669,033	9	3,855,157	8	7,845,206	17
Other equity	642,351	2	(483,507)	(1)	(342,113)	(1)
Treasury shares	(25,894)	-	(25,894)	-	(25,894)	-
Total equity attributable to owners of the Corporation	25,769,087	64	23,842,353	52	27,948,698	61
NON-CONTROLLING INTERESTS (Note 17)	(216,972)	-	(59,709)	-	167,853	-
Total equity	25,552,115	64	23,782,644	52	28,116,551	61
TOTAL	\$ 40,085,095	100	\$ 45,915,620	100	\$ 46,244,342	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)

(Concluded)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2013		2012	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 27)	\$ 18,905,129	100	\$ 26,704,782	100
OPERATING COSTS (Notes 11, 16, 18 and 27)	15,886,448	84	23,884,994	89
GROSS PROFIT	3,018,681	16	2,819,788	11
OPERATING EXPENSES (Notes 16, 18 and 27)				
Selling and marketing expenses	453,723	3	419,716	2
General and administrative expenses	2,641,962	14	2,154,987	8
Research and development expenses	1,571,313	8	1,693,493	6
Total operating expenses	4,666,998	25	4,268,196	16
LOSS FROM OPERATIONS	(1,648,317)	(9)	(1,448,408)	(5)
NON-OPERATING INCOME AND EXPENSES				
Interest income	152,255	1	157,154	1
Royalty income	1,610,262	9	491,229	2
Dividend income	62,161	-	31,301	-
Other income (Note 27)	255,609	1	270,434	1
Interest expense (Note 12)	(176,668)	(1)	(195,965)	(1)
Net gain on foreign currency exchange	142,446	1	257,408	1
Impairment loss (Notes 5, 12 and 13)	(59,212)	-	(144,528)	(1)
Other expenses (Notes 16 and 27)	(550,026)	(3)	(53,622)	-
Total non-operating income and expenses	1,436,827	8	813,411	3
LOSS BEFORE INCOME TAX	(211,490)	(1)	(634,997)	(2)
INCOME TAX EXPENSE (BENEFIT) (Notes 4 and 19)	175,481	1	(447,410)	(2)
NET LOSS FOR THE YEAR	(36,009)	-	(1,082,407)	(4)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange differences on translating foreign operations	607,206	3	(540,130)	(2)
Unrealized gain on available-for-sale financial assets	505,084	3	417,811	1
Actuarial gain and loss arising from defined benefit plans (Notes 4 and 16)	8,405	-	(3,049)	-
Share of other comprehensive loss of associates	\$ (4,588)	-	\$ (15,399)	-
Income tax relating to components of other comprehensive income (loss) (Notes 4, 16 and 19)	1,776	-	519	-
Other comprehensive income (loss) for the year, net of income tax	1,117,883	6	(140,248)	(1)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ 1,081,874	6	\$ (1,222,655)	(5)
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owner of the Corporation	\$ 29,303	-	\$ (748,222)	(3)
Non-controlling interests	(65,312)	-	(334,185)	(1)
	\$ (36,009)	-	\$ (1,082,407)	(4)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Corporation	\$ 1,160,440	6	\$ (892,146)	(4)
Non-controlling interests	(78,566)	-	(330,509)	(1)
	\$ 1,081,874	6	\$ (1,222,655)	(5)
EARNINGS (LOSS) PER SHARE (Note 20)				
Basic	\$ 0.03		\$ (0.69)	

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Equity Attributable to Owners of the Corporation					
	Share Capital		Capital Surplus	Retained Earnings		
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings
BALANCE AT JANUARY 1, 2012	1,080,173	10,801,778	\$ 9,669,721	\$ 402,798	\$ 704,456	\$ 6,737,952
Appropriation of 2011 earnings						
Reversal of special reserve	-	-	-	-	(433,021)	433,021
Legal reserve	-	-	-	652,678	-	(652,678)
Cash dividends - \$3 per share	-	-	-	-	-	(3,239,278)
Net loss for the year ended December 31, 2012	-	-	-	-	-	(748,222)
Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax	-	-	-	-	-	(2,530)
Total comprehensive income (loss) for the year ended December 31, 2012	-	-	-	-	-	(750,752)
Partial acquisition of interests in subsidiaries	-	-	-	-	-	(19)
Conversion of employee share options	817	8,119	16,979	-	-	-
BALANCE AT DECEMBER 31, 2012	1,080,990	10,809,897	9,686,700	1,055,476	271,435	2,528,246
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	-	70,678	(70,678)
Special reserve	-	-	-	-	141,394	(141,394)
Net profit (loss) for the year ended December 31, 2013	-	-	-	-	-	29,303
Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax	-	-	-	-	-	5,279
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	-	-	-	34,582
Private issue of ordinary shares for cash - July	60,000	600,000	387,000	-	-	-
Change in equity from investments in associates accounted for by using equity method	-	-	-	-	-	(25,705)
Partial acquisition of interests in subsidiaries	-	-	-	-	-	(195,001)
BALANCE AT DECEMBER 31, 2013	1,140,990	11,409,897	\$ 10,073,700	\$ 1,055,476	\$ 483,507	\$ 2,130,050

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 20, 2014)

Other Equity							
Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares	Total	Non-controlling Interests	Total Equity		
\$ -	\$ (342,113)	\$ (25,894)	\$ 27,948,698	\$ 167,853	\$ 28,116,551		
-	-	-	-	-	-		
-	-	-	-	-	-		
-	-	-	(3,239,278)	-	(3,239,278)		
-	-	-	(748,222)	(334,185)	(1,082,407)		
(559,205)	417,811	-	(143,924)	3,676	(140,248)		
(559,205)	417,811	-	(892,146)	(330,509)	(1,222,655)		
-	-	-	(19)	102,947	102,928		
-	-	-	25,098	-	25,098		
(559,205)	75,698	(25,894)	23,842,353	(59,709)	23,782,644		
-	-	-	-	-	-		
-	-	-	-	-	-		
-	-	-	29,303	(65,312)	(36,009)		
620,774	505,084	-	1,131,137	(13,254)	1,117,883		
620,774	505,084	-	1,160,440	(78,566)	1,081,874		
-	-	-	987,000	-	987,000		
-	-	-	(25,705)	-	(25,705)		
-	-	-	(195,001)	(78,697)	(273,698)		
\$ 61,569	\$ 580,782	\$ (25,894)	\$ 25,769,087	\$ (216,972)	\$ 25,552,115		

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (211,490)	\$ (634,997)
Adjustments for:		
Depreciation expenses	1,597,401	1,554,630
Amortization expenses	460,916	505,238
Net gain on fair value change of financial assets at fair value through profit or loss	(69,337)	(21,548)
Interest expense	176,668	195,965
Interest income	(152,255)	(157,154)
Dividend income	(62,161)	(31,301)
Compensation cost of employee share options	-	8,190
Share of profit of associates	(1,105)	(7,063)
Net loss on disposal of property, plant and equipment	13,428	18,470
Gain on disposal of investments	(10,312)	-
Impairment loss recognized on non-financial assets	59,212	144,528
Write-down (reversal) of inventories	(779,069)	566,863
Unrealized net loss (gain) on foreign currency exchange	27,317	(41,298)
Changes in operating assets and liabilities		
Financial assets held for trading	81,000	(167,762)
Notes and accounts receivable	3,393,023	2,442,330
Accounts receivable from related parties	15,678	347,285
Inventories	1,101,181	1,652,564
Prepayments	221,374	(152,839)
Other current assets	127,650	(110,468)
Accounts payable	(2,743,718)	(308,806)
Accounts payable to related parties	42,492	(10,593)
Other payables	(168,102)	(292,015)
Receipts in advance	258,976	490,209
Other current liabilities	6,314	(340,397)
Accrued pension liabilities	(377,044)	55,351
Cash generated from operations	3,008,037	5,705,382
Income tax paid	(85,250)	(397,317)
Net cash generated from operating activities	2,922,787	5,308,065
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	-	(135,697)
Acquisition of associates	(4,302)	-
Acquisition of subsidiaries	-	(1,269,527)
Payments for property, plant and equipment	(1,095,298)	(1,470,805)
Proceeds from disposal of property, plant and equipment	15,946	57,361
Payments for intangible assets	(32,273)	(30,651)
Decrease (increase) in other financial assets	45,752	(45,752)
Decrease in other non-current assets	38,737	135,322
Interest received	154,262	176,712
Dividends received	62,161	31,301
Net cash used in investing activities	(815,015)	(2,551,736)

(Continued)

	For the Year Ended December 31	
	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	\$ (3,012,590)	\$ 2,175,396
Repayments of bonds payable	(624,938)	-
Proceeds from long-term borrowings	1,200,000	1,294,012
Repayments of long-term borrowings	(2,617,975)	-
Decrease in other non-current liabilities	(43,164)	(114,740)
Cash dividends paid	-	(3,239,278)
Proceeds from issue of ordinary shares	987,000	-
Conversion of employee share options	-	16,908
Interest paid	(197,834)	(167,830)
Changes in non-controlling interests	(168,769)	103,830
Net cash generated from (used in) financing activities	(4,478,270)	68,298
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	144,399	(307,592)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,226,099)	2,517,035
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	6,890,362	4,373,327
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 4,664,263	\$ 6,890,362

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



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