

Ticker Symbol: 1590



**AirTAC International Group**

**Annual Report 2011**

Printed on April 30, 2012

For related information, please go to:

Market Observation Post System: <http://mops.twse.com.tw>

AirTAC Website: <http://www.airtac.com/>

## Spokesperson and Deputy Spokesperson

	Spokesperson	Deputy Spokesperson
<b>Name</b>	<b>Tsao Yung-Hsiang,</b>	<b>Lin Chiang-Ti</b>
<b>Title</b>	<b>Chief Financial Officer</b>	<b>Group Special Assistant</b>
<b>TEL</b>	<b>(886) 2-2269-7766</b>	<b>(86) 574-8895-0001</b>
<b>E-MAIL</b>	<b>ivan.tsao@airtac.com</b>	<b>linti0908@airtac.com</b>

## Headquarters and Subsidiaries

### 1. Company information

Name: AirTAC International Group

Address: PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands  
TEL: (86) 574-8895-0001

Website: <http://www.airtac.com>

### 2. Headquarters

Name: AirTAC International Group

Address: No. 1, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China  
TEL: (86) 574-8895-0001

Website: <http://www.airtac.com>

### 3. Subsidiaries

Name: Airtac Industrial (Hong Kong) Limited (a subsidiary in Hong Kong)

Address: Suites 2302-6, 23/F., Great Eagle Ctr., Harbour Road, Wanchai, Hong Kong  
TEL: (86)574-8895-0001

Website: <http://www.airtac.com>

Name: Airtac Trading (Hong Kong) Limited (a subsidiary in Hong Kong)

Address: Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong  
TEL: (86)574-8895-0001

Website: <http://www.airtac.com>

Name: Instant Reach International Limited (a subsidiary in British Virgin Island)

Address: Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong  
TEL: (86)574-8895-0001

Website: <http://www.airtac.com>

Name: Airtac Holding (Singapore) Pte. Ltd (a subsidiary in Singapore)

Address: 1 JALAN REMAJA #04-08J HILLVIEW HOUSE SINGAPORE (668662)  
TEL: (65)6808-8789

Website: <http://www.airtac.com>

Name: Ningbo AirTAC Automatic Industrial Co., Ltd.(a subsidiary in China)

Address: No. 88, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China  
TEL: (86) 574-8895-0001

Website: <http://www.airtac.com>

Name: Guangdong AirTAC Automatic Industrial Co., Ltd. (a subsidiary in China)

Address: Building 19, Julong Industrial Zone, Xicha Rd., Guangxi City, Guangzhou Province, China  
TEL: (86) 20-3647-0760

Website: <http://www.airtac.com>

Name: Airtac (China) Co., Ltd. (a subsidiary in China)

Address: No. 88, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China  
TEL: (86) 574-88989999

Website: <http://www.airtac.com>

Name: Jianliang (Shanghai) Trading Co., Ltd. (a subsidiary in China)

Address: F6, No. 58, Xiangcheng Rd, Pudong New District, Shanghai, China  
TEL: (86) 21-6840-6655

Website: <http://www.airtac.com>

Name: AirTAC Industrial Co., Ltd. (a subsidiary in Taiwan)

Address: 23 Ziyou Road, Tucheng City, Taipei County  
TEL: (886)2- 2269-7766

Website: <http://www.airtac.com>

Name: ATC (ITALIA) S.R.L. (a subsidiary in Italy)

Address: Via San Vittore 16, 20123 Milano, Italy

Website: <http://www.airtac.com>

Name: Airtac International (Singapore) Pte. Ltd

Address: 1 JALAN REMAJA #04-08J HILLVIEW HOUSE SINGAPORE (668662)  
TEL: (65)6808-8789

Website: <http://www.airtac.com>

## Transfer Agent & Registrar

Name: Agency Department, Chinatrust Commercial Bank

Address: 5<sup>th</sup> Floor, No. 83, Sec. 1, Chungking South Road, Taipei City

TEL: (886) 2-2311-1838

Website: <https://ecorp.chinatrust.com.tw>

## Auditor

CPA: HSIEN MING-CHUNG and Jacky M. Chen

Office: Deloitte & Touche

Website: <http://www.deloitte.com.tw>

Address: 12F, 156 Ming Sheng E. Road, Sec. 3, Taipei City

TEL: (886)2-2545-9988

Overseas Securities Listing Exchange and Information: None.

Company Website: <http://www.airtac.com>

## Roster of Directors

Title	Name	Nationality	Experience
<b>Chairman</b>	<b>Wang Shih-Chung</b>	<b>Taiwan</b>	<b>Chairman of AirTAC International Group</b>
<b>Director</b>	<b>Gordon Shaw</b>	<b>Taiwan</b>	<b>Managing Director of Baring Private Equity Asia</b>
<b>Director</b>	<b>Lan Shun-Cheng</b>	<b>Taiwan</b>	<b>President of AirTAC International Group</b>
<b>Director</b>	<b>Wang Hai-Ming</b>	<b>China</b>	<b>Vice Chairman of Ningbo AirTAC</b>
<b>Director</b>	<b>Lin Chiang-Ti</b>	<b>Taiwan</b>	<b>President of Jianliang (Shanghai) Trading</b>
<b>Director</b>	<b>Wang Hong-Bing</b>	<b>China</b>	<b>Vice President of Jianliang (Shanghai) Trading</b>
<b>Independent Director</b>	<b>Chang Bao-Guang</b>	<b>Taiwan</b>	<b>Professor of Accounting, Tamkang University</b>
<b>Independent Director</b>	<b>Chiang Chih-Chun</b>	<b>Taiwan</b>	<b>Chief Attorney of Latham &amp; Watkins LLP</b>
<b>Independent Director</b>	<b>Leong Kam-Son</b>	<b>Malaysia</b>	<b>Former Operation Partner of JW Childs, Former President of Asia/Pacific Operations of York International Corporation</b>

Designated Domestic Agent

<b>Name</b>	<b>Tsao Yung-Hsiang,</b>	<b>TEL</b>	<b>(886) 2-2269-7766</b>
<b>Title</b>	<b>Chief Financial Officer</b>	<b>E-MAIL</b>	<b>ivan.tsao@airtacworld.com</b>

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## 1. Letter to Shareholders

Dear Shareholders,

### 1.1 Foreword

After years of planning and efforts, AirTAC was successfully listed on Taiwan Stock Exchange in December 2010. Even though AirTAC encountered a weak demand of the Western market as well as the domestic credit contraction and macro-control by the Chinese government, thanks to the firm support of shareholders and the concerted efforts of all employees, AirTAC achieved record high consolidated revenue and earnings in 2011.

### 1.2 2011 Business Overview:

#### (1) Business performance

In 2011, AirTAC reported consolidated revenue of TWD 5,638,304,000, an increase of TWD 1,339,211,000 or 30.15% as compared to the revenue of TWD 4,299,093,000 in 2010. Our consolidated net income after tax amounted to TWD 1,376,768,000, growing TWD 326,821,000 or 31.13% as compared to net income of TWD 1,094,947,000 in 2010. The earnings per share in 2010 were TWD 9, and the net worth per share was TWD 36.76 with stockholders' equity of TWD 5,513,683,000. To sum up, the Group's 2011 consolidated revenue, consolidated net income and earnings per share all hit record-high levels since the Company's inception.

#### (2) Financial and profit analysis

In 2011, our consolidated non-operating income amounted to TWD 68,148,000, which was decreased by TWD 7,646,000 or 10.09% as compared to TWD 75,794,000 in 2010. The decrease is attributed primarily to the Government grant income being reduced by 3,962,000. Our 2011 consolidated non-operating expense was TWD 36,051,000, which was decreased by TWD 17,792,000 or 33.04% as compared to TWD 53,843,000 in 2010, with a main cause of the interest cost being decreased by 20,380,000 as compared to that of 2010. In addition, our 2011 return on assets was 18.30% and our return on stockholders' equity in the year was 27.41%.

#### (3) R&D

In R&D, AirTAC continues to shore up the high market shares of our mid-end products used in traditional industries and has been endeavoring in the development of mid- to high-end products in recent years. We plan to roll out about five to ten series of new products every year in the next three years to double the breadth of our product lines. Aside from new product R&D, we also spend heavily on production automation and process improvement to enhance our competitiveness. Our 2011 R&D expenditure amounted to TWD 114,194,000, accounting for 2.03% of the year's consolidated revenue, and increasing by TWD 69,983,000 or 158.29% as compared to TWD 44,211,000 in 2010. In the continuing efforts to strengthen our R&D capability, we plan to increase our R&D spending up to 4% of the year's consolidated net operating income in the future.

### 1.3 Summary of 2012 Business Plan:

For 2012, we will budget 400 million RMB for capital expenditure. Besides capacity expansion, we plan to launch about 5 series of new products. We also plan to increase the number of sales offices in China from 49 at the end of 2011 to 60 in 2012. As for the expansion of overseas operations, we will accomplish the construction of the Southeast Asia headquarters and a basic processing plant in Singapore and start operation in the latter half of 2012 to boost our market shares and generate more profits. In view of the world economic situation, changes in the industrial and business environments and market supply and competition, and in consideration of our business

with existing clientele around the world and progress in new client development, we project that our 2012 sales will grow at least 20% from 2011.

Industrial automation systems advance rapidly. With the goals of seeking stable, sustainable operation and maximum benefits for shareholders, we will continue to develop new clients, develop new products, upgrade production technologies and improve production processes to shore up our overall competitiveness. We also aim for higher profits through improved operating efficiency coupled with effective cost control. We believe that with the full support of our 3,000 strong colleagues around the world and shareholders, AirTAC will gain record achievements in the exploration and development of industrial automation in the future.

*Lastly wish you all health and success!*

Chairman	Wang Shih-Chung
President	Lan Shun-Cheng
CFO	Tsao Yung-Hsiang

## 2. Company Overview

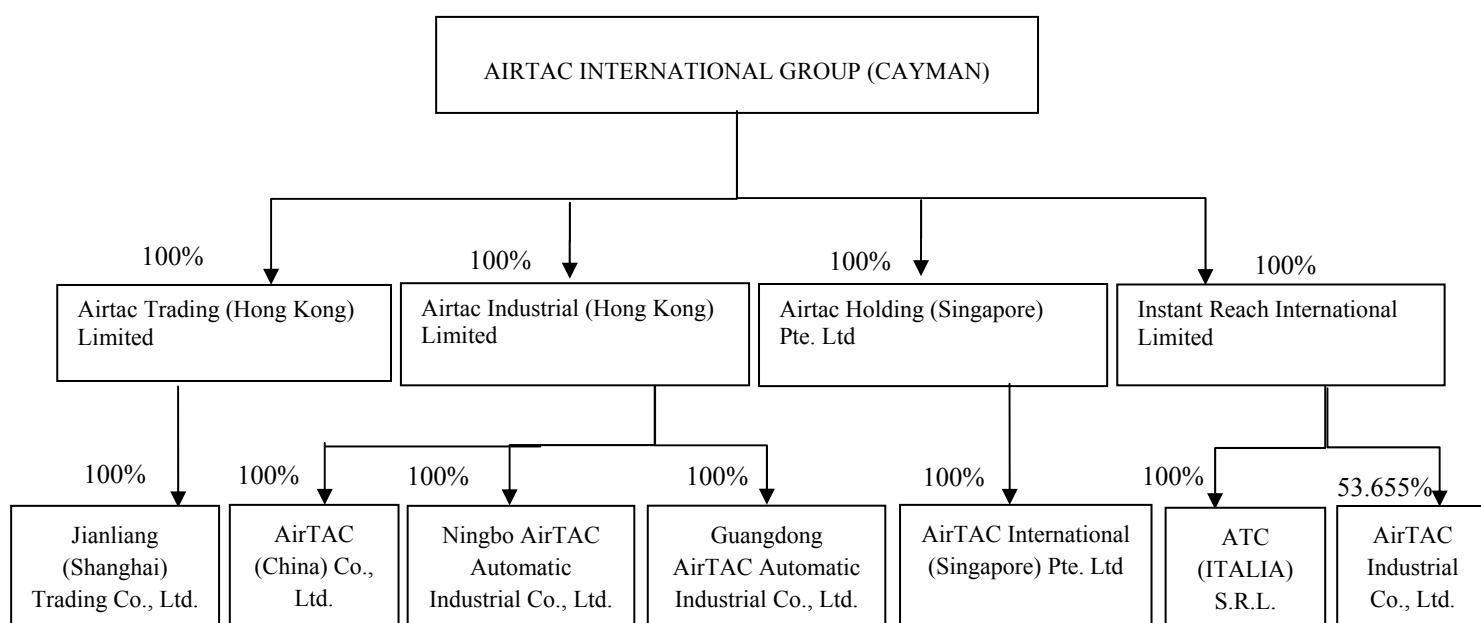
### 2.1 Company Introduction

#### 2.1.1 Date of establishment and introduction of the Group

AirTAC International Group (referred to the “Company” or the “Group” hereunder) started out as AirTAC International Co. Ltd. (originally named Cheng Chi Enterprise Co., Ltd.), which was established in May 1989 and manufactured mainly solenoid valves in its early stage. Now AirTAC International Group offers cylinders of special specifications and more than 40 series and hundreds of varieties of valve products, including solenoid valve, pneumatic valve, manual valve, hand-draw valve, mechanical valve, and throttle valve. Ningbo AirTAC Automatic Industrial Co. Ltd. was established in 2001 to produce cylinders and air preparation units for industrial automation applications in automotive, machinery, metallurgy, electronics, textile, porcelain, medical instruments and devices, and food packaging. AirTAC International Group was incorporated on September 16, 2009 in Cayman Islands as the holding company for the group enterprises and for IPO application.

As a leading manufacturer of pneumatic preparation components, the Company provides clients with total pneumatic solutions with its vertically integrated processes. The Company’s turnkey services, from product design, R&D, to volume production, greatly shorten the lead time in product development and the production process for extensive applications in industrial automation.

#### 2.1.2 Organizational structure





## 2.2 Milestones

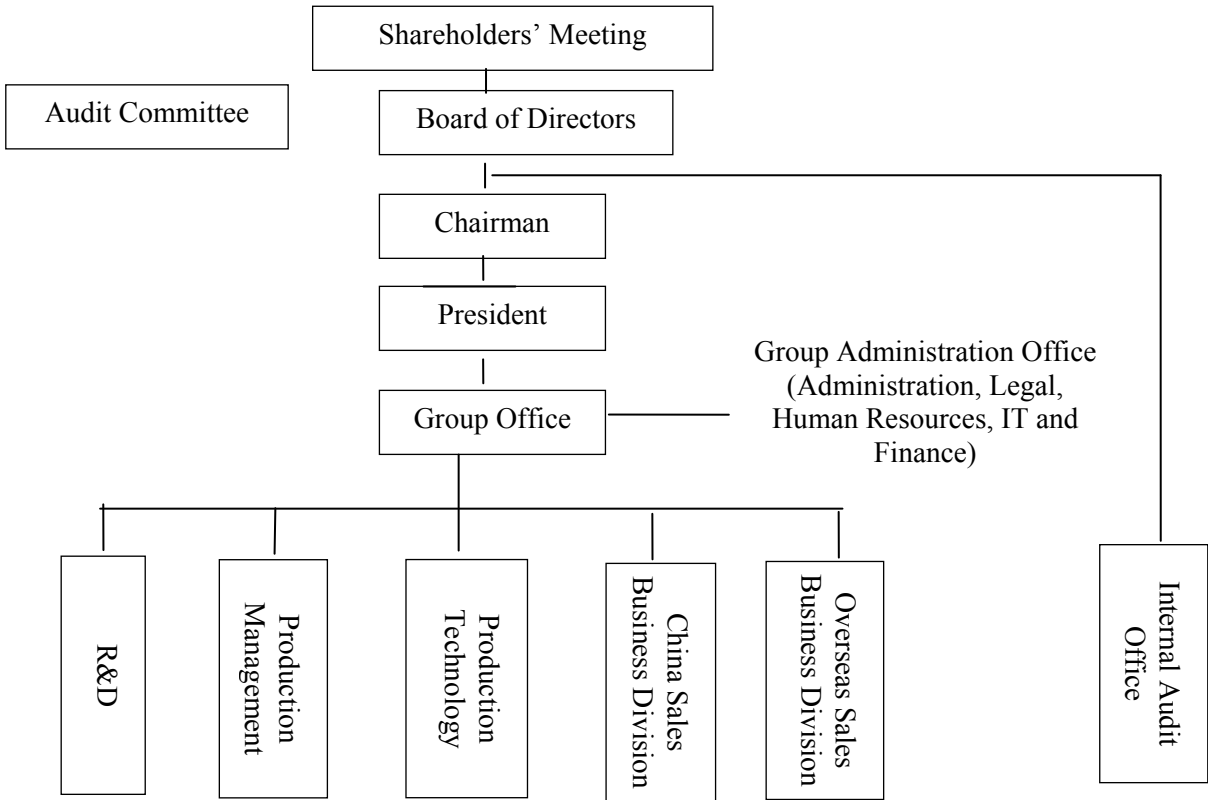
<u>Date</u>	<u>Milestone</u>
1989	AirTAC established in Taipei, Taiwan to manufacture mainly valve products.
1990	Launched brandname products AirTAC.
1992	Introduced air preparation units and pneumatic cylinders.
1995/07	Established an operation in Guangzhou, AirTAC's first establishment in China.
1998/07	Established Guangzhou Jianliang Automatic Industrial Co. in Guangzhou, AirTAC's first plant in China.
1998/08	Established the Northern China branch in Jinan, Shandong Province.
1999/03	Established the Eastern China branch in Shanghai.
2000/08	Established the West Southern China branch in Chengdu, Sichuan Province.
2001/08	Established Ningbo AirTAC Automatic Industrial Co. in Jejiang Ningbo Fenghua Economic Development Zone.
2002	Set up 6 sales offices in China.
2003/07	The phase 1 plant construction of Ningbo AirTAC Automatic Industrial Co. was completed and in production.
2003	Set up 18 sales offices and 28 representative offices throughout China.
2005	Adopted ERP system to implement full-scale information management.
2006	Established Guangzhou AirTAC Automatic Industrial Co. in 2006, which had its name changed to Guangdong AirTAC Automatic Industrial Co. in 2010.
2006/09	Established Jianliang (Shanghai) Trading Co.
2008/05	Established ATC (Italia) as the European sales headquarters.
2009/09	Establish AirTAC International Group as the Group's holding company and to apply for IPO.
2010/12	Stocks of AirTAC International Group were listed on Taiwan Stock Exchange.
2011/8	Establish Southeast Asian Sales Headquarters in Singapore, expected to start operation in July, 2012.
2011	Establish 18 Sales Branches in Mainland China.

2.3 Risks: Please see section on Financial Status, Operating Performance and Risk Evaluation.

### 3. Corporate Governance Report

#### 3.1 Organization

##### 3.1.1 Organizational structure



##### 3.1.2 Divisions

Division	Responsibility
Chairman	Decide policy instructions, goals and directions for Company’s business and appoint key managerial officers.
President	Manage all affairs of the Company and implement decisions made by the board of directors.
Internal Audit Office	In charge of internal audit tasks.
Group Office	Draft strategies and development directions for product sales, customer service and market development. In charge of tasks relating to legal, human resources management and investment management of the Group. In charge of tasks relating to fund management and accounting.
Production Management	In charge of production management of pneumatic actuator, pneumatic control components and air preparation components.
Production Technology	In charge of process technology for the production of pneumatic actuator, pneumatic control components and air preparation units.
R&D	In charge of research, design and improvement of pneumatic actuator, pneumatic control components and air preparation components.
China Sales Business Division	In charge of market development in China.
Overseas Sales Business Division	In charge of market development outside China.

3.2 Information on Directors, Supervisors and Management

3.2.1 Directors and Supervisors

1. Directors

April 16, 2012 Unit: Shares, %

Title	Name	Date elected	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children as of Dec. 31, 2010		Shares held in the name of others		Education/work experience	Other positions	Other officer, director or supervisor who is the spouse or a relative within the second degree		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	Wang Shih-Chung	2010/04/17	3 years	2009/12/24	—	—	—	—	4,175,357	2.79	27,471,426	18.31	* Chairman of AirTAC International Group	Note 1	—	—	—
Director	Gordon Shaw	2010/04/17	3 years	2009/12/24	—	—	—	—	—	—	—	—	* Managing Director of Baring Private Equity Asia	Note 2	—	—	—
Director	Lan Shun-Cheng	2010/04/17	3 years	2009/12/24	1,504,938	2.33	3,093,613	2.06	—	—	8,665,000	5.78	* President of AirTAC International Group	* President of AirTAC International Group * Director of AirTAC Industrial Co. Ltd.	—	—	—
Director	Wang Hai-Ming	2010/04/17	3 years	2009/12/24	—	—	—	—	924,687	0.62	10,432,850	6.95	* Vice Chairman of Ningbo Airtac	Note 3	—	—	—
Director	Lin Chiang-Ti	2010/04/17	3 years	2010/04/17	439,151	0.68	1,052,737	0.70	—	—	—	—	* President of Jianliang (Shanghai) Trading * President of Ningbo AirTAC Automatic Industrial Co. * Director of AirTAC (China) Co., Ltd. * Supervisor of Jianliang (Shanghai) Trading Co. * Director of Guangdong AirTAC Automatic Industrial Co., Ltd. * Director of ATC (ITALIA) S.R.L.	—	—	—	
Director	Wang Hong-Bing	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	* Vice President of Jianliang (Shanghai) Trading * Vice President of Jianliang (Shanghai) Trading Co., Ltd. * Director of Jianliang (Shanghai) Trading Co., Ltd.	—	—	—	
Independent director	Chang Bao-Guang	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	* Professor of Accounting, Tamkang University	* Director of Accounting, Tamkang University	—	—	—
Independent director	Chiang Chih-Chun	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	* Chief Attorney of Latham & Watkins LLP * Financial and Economic Law Consultant of the Straits Exchange Foundation for the Taiwanese Businessmen in the Mainland * Arbitrator of Arbitration Association of the Republic of China * Arbitrator of Arbitration Association of Qingdao, Tianjin, Dalian, and Shantou, China	—	—	—	

Title	Name	Date elected	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children as of Dec. 31, 2010		Shares held in the name of others		Education/work experience	Other positions	Other officer, director or supervisor who is the spouse or a relative within the second degree		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Independent director	Leong Kam-Son	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	*Former Operation Partner of JW Childs *Former President of Asia/Pacific Operations of York International Corporation	* Independent Director of Fluidra, S.A. * Director of Vast Lava ▪ Director of HL Partners	—	—	—

Note 1: Chairman of eleven companies, including Ningbo AirTAC Automatic Industrial Co., Ltd., Guangdong AirTAC Automatic Industrial Co., AirTAC (China) Co., Ltd., Jianliang (Shanghai) Trading Co., Ltd., ATC (ITALIA) S.R.L, AirTAC Industrial Co., Ltd., Airtac Industrial (Hong Kong) Limited, Airtac Trading (Hong Kong) Limited and Instant Reach International Limited., Airtac Holding (Singapore) Pte. Ltd., Airtac International (Singapore) Pte. Ltd.

Note 2: Director of AirTAC (China) Co., Ltd., Director of Jianliang (Shanghai) Trading Co., Ltd., Supervisor of Ningbo AirTAC Automatic Industrial Co., Supervisor of Guangdong AirTAC Automatic Industrial Co., and Supervisor of AirTAC Industrial Co., Ltd.

Note 3: Director of Ningbo AirTAC Automatic Industrial Co., Ltd., Director of AirTAC (China) Co., Ltd., Director of Jianliang (Shanghai) Trading Co., Ltd., Director of Guangdong AirTAC Automatic Industrial Co., Ltd. and Director of Instant Reach International Limited.

2. Supervisors: The Company does not have supervisors, but has set up an Audit Committee on April 28, 2010.

3. All directors of the Company are natural persons. The Company does not have juristic-person director.

## Directors and Supervisors

Name	Criteria			Meet the independence criteria (Note)										Number of other public companies in which the director also serves as an independent director
	Has at least 5 years of work experience and meet one of the following professional qualifications	An instructor or higher position in the department of commerce, law, finance, accounting or other department related to the business needs of the Company in a public or private junior college or university	A judge, public prosecutor, attorney, accountant, or other professional or technical specialist related to the needs of the Company who has passed a national examination and received a certificate therefor	Having work experience in commerce, law, finance, or accounting or a profession necessary for the business of the Company	1	2	3	4	5	6	7	8	9	
Wang Shih-Chung			✓	✓			✓			✓	✓	✓	✓	0
Gordon Shaw			✓	✓		✓	✓		✓	✓	✓	✓	✓	0
Lan Shun-Cheng			✓				✓			✓	✓	✓	✓	0
Wang Hai-Ming			✓	✓			✓	✓		✓	✓	✓	✓	0
Lin Chiang-Ti			✓			✓	✓	✓		✓	✓	✓	✓	0
Wang Hong-Bing			✓			✓	✓			✓	✓	✓	✓	0
Chang Bao-Guang	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chiang Chih-Chun		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Leong Kam-Son			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

**Note:** If the director or supervisor meets any of the following criteria in the two years before being elected or during the term of office, please check “✓” the corresponding boxes:

- (1) Not an employee of the Company or any of its affiliates;
- (2) Not a director or supervisor of the Company or any of its affiliates (the same does not apply if the person is an independent director of the Company or its parent company, or any subsidiary in which the Company holds, directly and indirectly, more than 50% of the voting shares).
- (3) Not a natural-person shareholder whose shareholding, together with those of his/her spouse, minor children, and shares held under others' names, exceed 1% of the total number of outstanding shares of the Company, or ranks the person in the top ten shareholders of the Company.
- (4) Not a spouse, relative within second degree of kinship, or lineal relative within fifth degree of kinship of any of the persons in the preceding three paragraphs.
- (5) Not a director, supervisor or employee of a juristic-person shareholder that holds directly 5% or more of the total number of outstanding shares of the Company or ranks in the top five shareholders.
- (6) Not a director, supervisor, manager or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional or an owner, partner, director, supervisor, manager or a spouse of the abovementioned who provides commercial, legal, financial, accounting services or consultation to the Company or an affiliate of the Company.
- (8) Not having a marital relationship or a relative within the second degree of kinship to any other director of the Company.
- (9) Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.
- (10) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the R.O.C.

3.2.2 President, Vice Presidents, Assistant Vice Presidents, Department and Branch Heads

April 11, 2011 Unit: Shares, %

Title	Name	Date appointed (Note)	Shares held		Shares held by spouse and children		Shares held in the name of others		Education/work experience	Other positions	Manager who is the spouse or a relative within the second degree		
			Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	Lan Shun-Cheng	2009.12.24	3,093,613	2.06	—	—	8,665,000	5.78	▪ President of AirTAC International Group	Note 1	—	—	—
President of Jianliang (Shanghai)	Lin Chiang-Ti	2011.01.01	1,052,737	0.70	—	—	—	—	▪ President of Ningbo AirTAC and Guangdong AirTAC	Notes 2	—	—	—
President of Guangdong AirTAC	Lin Yong-Feng	2009.11.17	2,909,581	1.94	36,000	0.02	—	—	▪ Production VP of Ningbo AirTAC	Note 3	—	—	—
President of Taiwan AirTAC	Yang Kuo-Yi	2009.05.01	41,000	0.03	—	—	—	—	▪ Administrative VP of Ningbo AirTAC ▪ VP of Kunshan Baiheng Photoelectric	Note 4	—	—	—
President of ATC (Italia)	Chou Chi-Li	2011.01.01	—	—	—	—	—	—	▪ Assistant VP of Jianliang (Shanghai)	—	—	—	—
President of Ningbo AirTAC	Li Hui-Wen	2011.01.01	—	—	—	—	—	—	▪ Production manager of Xiamen Amekai Co. ▪ Plant manager of Xiamen Lee Sheng Electronics	—	—	—	—
Vice President of Ningbo AirTAC	Wang Yu-Jen	2011.09.13	—	—	—	—	—	—	▪ Operation Management Assistant Manager of Foxconn	—	—	—	—
Vice President of R&D Center	Huang Li-Pei	2011.01.01	39,000	—	—	—	—	—	▪ Group Assistant Manager of Foxconn	—	—	—	—
Vice President of Systems Engineering Dept. of AirTAC China	Zhu Yan	2011.03.03	—	—	—	—	—	—	▪ Director of Sales Headquarters, Eastern and Southwestern Region of SMC	—	—	—	—
Administrative VP of Ningbo AirTAC	Gu Zhong-Ming	2011.01.01	—	—	—	—	—	—	▪ Sales VP of Ningbo AirTAC	—	—	—	—
Technology VP of Jianliang (Shanghai)	Xu Guan-Hua	2011.01.01	—	—	—	—	—	—	▪ Market Director of Jianliang (Shanghai)	—	—	—	—
Sales VP of Jianliang (Shanghai)	Yuan Shi-Da	2011.01.01	—	—	—	—	—	—	▪ Sales Director of Jianliang (Shanghai)	—	—	—	—
Vice President of Jianliang (Shanghai)	Wang Hong-Bing	2011.01.01	—	—	—	—	—	—	▪ VP of Jianliang (Shanghai)	Note 5	—	—	—
Chief Financial Officer	Tsao Yung-Hsiang,	2010.05.27	60,000	0.04	—	—	—	—	▪ Assistant Finance VP of Paragon Technologies ▪ Chairman's special assistant of Niko-SEM	—	—	—	—







\$2,000,000 ~ <\$5,000,000	—	—	—	Lan Shun-Cheng, Wang Hai-Ming
\$5,000,000 ~ <\$10,000,000	—	—	—	Wang Shih-Chung, Lin Chiang-Ti
\$10,000,000 ~ <\$15,000,000	—	—	—	—
\$15,000,000 ~ <\$30,000,000	—	—	—	—
\$30,000,000 ~ <\$50,000,000	—	—	—	—
\$50,000,000 ~ <\$100,000,000	—	—	—	—
100,000,000 or higher	—	—	—	—
Total	—	9 persons	—	9 persons

(2) Remuneration of supervisors: Not applicable for the Company does not have supervisors.

(3) Remuneration of president and vice presidents

Unit: NT\$1,000; shares: %

Title	Name	Salary (A)		Pension (B)		Bonus and special allowance (C)		Employee bonus (D)				Ratio of total (A), (B), (C), and (D) to after-tax income (%)		Shares subscribable under employee stock options		Remuneration received from investees other than subsidiaries
		AirTAC International	All companies in consolidated statements	AirTAC International	All companies in consolidated statements	AirTAC International	All companies in consolidated statements	AirTAC International		All companies in consolidated statements		AirTAC International	All companies in consolidated statements	AirTAC International	All companies in consolidated statements	
								Cash bonus	Stock bonus	Cash bonus	Stock bonus					
AirTAC president	Lan Shun-Cheng	-	37,202	-	-	-	11,363	-	-	31,053	-	5.78%	-	-	-	
President of Jianliang (Shanghai)	Lin Chiang-Ti															
President of Guangdong AirTAC	Lin Yong-Feng															
President of AirTAC Taiwan	Yang Kuo-Yi															
President of ATC (Italia)	Chou Chi-Li															
President of Ningbo AirTAC	Li Hui-Wen															
VP of Ningbo AirTAC	Wang Yu-Jen															
VP of R&D Center	Huang Li-Pei															
VP of Systems Engineering Dept. of AirTAC China	Zhu Yan															
Administrative VP of Ningbo AirTAC	Gu Zhong-Ming															
Technology VP of Jianliang (Shanghai)	Xu Guan-Hua															
Sales VP of Jianliang (Shanghai)	Yuan Shi-Da															
VP of Jianliang (Shanghai)	Wang Hong-Bing															

### Remuneration Table

Remuneration to respective president or vice president	Name of president or vice president	
	AirTAC International	All companies in consolidated statements
< \$2,000,000	—	Lan Shun-Cheng, Wang Yu-Jen
\$2,000,000 ~ <\$5,000,000	—	Yang Kuo-Yi, Zhu Yan, Gu Zhong-Ming, Xu Guan-Hua, Yuan Shi-Da, Wang Hong-Bing
\$5,000,000 ~ <\$10,000,000		Lin Yong-Feng, Wang Shih-Chung, Huang Li-Pei
\$10,000,000 ~ <\$15,000,000	—	Lin Chiang-Ti, Li Huai-Wen
\$15,000,000 ~ <\$30,000,000	—	—
\$30,000,000 ~ <\$50,000,000	—	—
\$50,000,000 ~ <\$100,000,000	—	—
\$t100,000,000 or higher	—	—
Total	— persons	13 persons

(4) Names of managers receiving employee bonus

April 16, 2012

	Title	Name	Stock bonus	Cash bonus	Total	Ratio of total bonus to after-tax income (%)
Manager	AirTAC President	Lan Shun-Cheng	—	34,562	34,562	2.51%
	President of Jianliang (Shanghai)	Lin Chiang-Ti				
	President of Guangdong AirTAC	Lin Yong-Feng				
	President of Taiwan AirTAC	Yang Kuo-Yi				
	President of ATC (Italia)	Chou Chi-Li				
	President of Ningbo AirTAC	Li Hui-Wen				
	Administrative VP of Ningbo AirTAC	Wang Yu-Jen				
	VP of R&D Center of Ningbo AirTAC	Huang Li-Pei				
	VP of Jianliang (Shanghai)	Zhu Yan				
	Administrative VP of Ningbo AirTAC	Gu Zhong-Ming				
	Technology VP of Jianliang (Shanghai)	Xu Guan-Hua				
	Sales VP of Jianliang (Shanghai)	Yuan Shi-Da				
	President of Jianliang (Shanghai)	Wang Hong-Bing				
	Chief Financial Officer	Tsao Yung-Hsiang,				
	Chief Auditing officer	Lin Chian-Ming				

3.2.4 Total remuneration to directors, supervisors, president, and vice presidents as a percentage of net income paid by the Company and all companies in consolidated statements in the two most recent years, remuneration policies, standards, and packages, the procedure for determining remuneration, and correlation with operating performance:

(1) Total remuneration to directors, supervisors, president, and vice presidents as a percentage of net income paid by the Company and all companies in consolidated statements:

In TWD 1,000

Item	2010		2011	
	Amount	%	Amount	%
Director	17,690	1.68%	28,514	2.07%
President and vice presidents	49,804	4.74%	79,618	5.78%
Consolidated profit	1,049,947	100.00%	1,376,768	100.00%

Note: Remuneration to directors includes their pay as an employee.

Thus total pays for president and vice presidents could be redundantly calculated.

(2) Remuneration policies, standards, and packages, the procedure for determining remuneration, and correlation with operating performance and risks:

- ① Remuneration to directors is decided based on their other positions in the Company, the extent of participation in Company operations and their contribution value.
- ② Remuneration to president and vice presidents is decided based on their position, contribution to the Company, and industry standards in accordance with the Company's personnel rules.

### 3.3 Implementation of Corporate Governance

#### 3.3.1 Operation of the Board of Directors

The board of directors held 7 meetings in 2011. The attendance records of directors are as follows:

Title	Name	Number of attendance in person	Number of attendance by proxy	Actual attendance rate (%)	Remark
Chairman	Wang Shih-Chung	7	0	100%	—
Director	Gordon Shaw	7	0	100%	—
Director	Lan Shun-Cheng	7	0	100%	—
Director	Wang Hai-Ming	6	1	85.71%	—
Director	Lin Chiang-Ti	7	0	100%	—
Director	Wang Hong-Bing	3	4	42.86%	—
Independent director	Chang Bao-Guang	7	0	100%	—
Independent director	Chiang Chih-Chun	7	0	100%	—
Independent director	Leong Kam-Son	7	0	100%	—

Notes:

1. In case there were matters under Article 14-3 of the Securities and Exchange Act, or any independent director expressed dissenting or reserve opinions on any material resolution adopted at a board of directors meeting, where there is a record or written statement of such opinion, describe the date and term of the board of directors' meeting, motion, the opinions of all independent directors and actions

Title	Name	Number of attendance in person	Number of attendance by proxy	Actual attendance rate (%)	Remark
taken by the Company in response to the opinions of independent directors: None.					
2. In case a director recused himself from participating in a matter before the board because of a conflict of interest, describe the name of director, motion, reason for recusal and participation in voting: During the extempore motion “Salary Raise for President of Jianliang (Shanghai) Trading Co., Ltd.-Lin Chiang-Ti” at the second period 14 <sup>th</sup> board of directors’ meeting, director Lin Chiang-Ti recused himself from participation in voting or voting as a proxy of other directors.					
3. Goals for enhancing the functions of the Board of Directors (e.g. setup of an audit committee, enhancing information transparency, etc.) and assessment of actions taken: None.					

### 3.3.2 Operation of Audit Committee

The Audit Committee held 7 meetings in 2011. The attendance records of independent directors are as follows:

Title	Name	Number of attendance in person	Number of attendance by proxy	Actual attendance rate (%)	Remark
Independent director	Chang Bao-Guang	7	0	100%	—
Independent director	Chiang Chih-Chun	7	0	100%	—
Independent director	Leong Kam-Son	7	0	100%	—
Notes:					
1. In case there were matters under Article 14-5 of the Securities and Exchange Act, or resolutions passed by more than two-thirds of all directors but not by the audit committee, describe the date and term of the board of directors’ meeting, motions, resolution adopted by the audit committee, and actions taken by the Company based on the opinions of the audit committee: None.					
2. In case an independent director recused himself from participating in a matter before the board because of a conflict of interest, describe the name of independent director, motion, reason for recusal and participation in voting: None.					
3. Communication between independent directors and chief audit officer and CPA (e.g. communication on Company’s finance, business, methods of communication and results): The Company’s chief audit officer sits in all audit committee’s meetings to communicate with committee members; CPA would sit in the meetings of audit committee if necessary.					

### 3.3.3 Implementation of corporate governance and departure from Corporate Governance Practice Principles for TWSE/GTSM

Listed Companies and Reasons

Title	Status of Operations	Departure from Corporate Governance Practice Principles for TWSE/GTSM Listed Companies and Reasons

Title	Status of Operations	Departure from Corporate Governance Practice Principles for TWSE/GTSM Listed Companies and Reasons
<p>1. Equity structure and shareholders' equity</p> <p>(1) Handling shareholders' suggestions and disputes</p> <p>(2) Major shareholders in actual control and the ultimate controller of major shareholders</p> <p>(3) The risk-control mechanism and the firewall with the affiliated enterprises</p>	<p>(1) Staff is assigned and an e-mail box is set up to handle suggestions and disputes of the shareholders.</p> <p>(2) Staff is assigned to manage related information so the list of major shareholders and final decision-makers is available at all times.</p> <p>(3) A "Procedure for Engaging in Transaction with Group Enterprises, Specific Companies and Related Parties" has been established to clearly stipulate business and financial dealings with affiliates as a risk control mechanism.</p>	<p>No major difference</p> <p>No major difference</p> <p>No major difference</p>
<p>2. Composition and responsibility of the board of directors</p> <p>(1) Independent directors</p> <p>(2) Regular assessment of the independence of CPA</p>	<p>(1) The Company has three seats on the board for independent director.</p> <p>(2) The Company appoints CPAs from reputable accounting firm as certifying CPAs who are not a stakeholder of the Company and maintain their independence.</p>	<p>No major difference</p> <p>No major difference</p>
<p>3. Communications with related parties</p>	<p>Staff is assigned and an e-mail box is set up to handle public relations and the affairs of stakeholders.</p>	<p>No major difference</p>
<p>4. Disclosure of information</p> <p>(1) A website to disclose financial and corporate governance information</p> <p>(2) Other ways to disclose information (such as the setup of an English website, appointment of the specific person in charge of information collection and disclosure, adoption of the spokesperson system, disclosing the institutional investor road shows on the company website)</p>	<p>(1) The Company reports required information in a timely manner according to applicable regulations and the path designated by Financial Supervisory Commission.</p> <p>(2) The Company has set up a website and discloses related information on Company's financial and business operations and corporate governance thereon. The Company also has a spokesperson system in place and will observe applicable regulations and the established system. The Company holds investors conference from time to time and posts the contents of investors conferences on Market Observation Post System.</p>	<p>No major difference</p> <p>No major difference</p>
<p>5. Operations of nomination, salary or other functional committees set up by the Company</p>	<p>The Company has established an audit committee and will set up other functional committees in view of needs.</p>	<p>No major difference</p>

Title	Status of Operations	Departure from Corporate Governance Practice Principles for TWSE/GTSM Listed Companies and Reasons
6. The status of corporate governance implementation and difference with the “Corporate Governance Best-Practice Principles for TWSE/GTSM Companies” and reasons for difference: The Company has not established Corporate Governance Best-Practice Principles, but has incorporated the spirits of corporate governance in its internal control systems and procedures.		
7. Other important information that aids the understanding of status of corporate governance (e.g. employee benefits, employee care, investor relations, rights of stakeholders, continuing education of directors and supervisors, risk management policy and risk assessment criteria, execution of customer policy, purchase of liability insurance for directors and supervisors) (1) The Company has established the Procedure for Distributing Employee Performance Bonus and Procedure for Retirement Incentives. (2) The Company arranges continuing education courses for its directors and independent directors. (3) Except for special circumstances, all directors and independent directors would attend board meetings and directors are barred from voting on motions in which they have an interest. (4) The Company purchases liability insurance for its directors and managers.		
8. If there is corporate governance self-evaluation report or corporate governance assessment report prepared by another professional institution, describe the self-evaluation (or outside assessment) results, major deficiencies (or suggestions) found and corrective actions taken: The Company’s self-evaluation did not find major discrepancies in corporate governance or departure from the Corporate Governance Practice Principles for TWSE/GTSM Listed Companies.		

3.3.4 If the Company has a compensation committee in place, the composition, duties, and operation of the compensation committee:

The compensation committee held 1 meeting in 2011. The attendance records of members are as follows:

Title	Name	Number of attendance in person	Number of attendance by proxy	Actual attendance rate (%)	Remark
Convener	Chang Bao-Guang	1	0	100%	—
Committee Member	Chiang Chih-Chun	1	0	100%	—
Committee Member	Leong Kam-Son	1	0	100%	—

3.3.5 Fulfillment of corporate social responsibilities (CSR): systems and measures that the Company has adopted with respect to environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, and other corporate social responsibilities and activities, and the state of implementation

Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
<p>1. Implementation of Corporate Governance</p> <p>(1) Corporate social responsibility policy and performance evaluation</p> <p>(2) (Dedicated) organization for the promotion and execution of corporate social responsibility</p> <p>3) Training and promotion of corporate ethics among directors, supervisors and employees, integration with the employee performance review system, and effective employee reward and disciplinary system</p>	<p>(1). The Company has been an avid supporter of public interest activities, actively promoting and participating in activities in Taiwan and China designed to help people in need, provide scholarship, raise funds for victims of natural disasters, and support the poor.</p> <p>(2) The Company has a charity team to take charge of the “Sunshine Actions” program that aims to provide emergency relief, support disadvantaged children, show loving care to underprivileged groups, vitalize education, and nourish humanity in society in the hope to perform its obligations as a good corporate citizen and give back to the society.</p> <p>(3) The Company is dedicated to building the corporate culture of “people first, sharing, development, and responsibility” and emphasizes the ideologies of “compliance, honesty, fairness, mutual aid, harmony and honesty”, and advocates those ideologies in internal training, meetings or employee activities. The Company has also established the procedure for employee performance review to assess the performance and moral character of employees, and put in place an employee reward and disciplinary system.</p>	<p>The Company will draw up corporate social responsibility policy or system in view of actual needs.</p> <p>In compliance with the CSR Best Practice Principles.</p> <p>In compliance with the CSR Best Practice Principles.</p>
<p>2. Sustainable environment development</p> <p>(1) Commitment to improving resources utilization and the use of renewable materials with low impact on environment</p> <p>(2) Establishment of proper environment management systems based on the characteristics of the industry the Company is in.</p> <p>(3) Establishment of a dedicated unit or assign dedicated personnel for environment</p>	<p>(1) The Company conducts regular maintenance check of electric equipment and major energy-consuming equipment to prevent tripping, fuming, dripping, leakage and malfunction, thereby enhancing the energy efficiency. In the efforts to reduce environmental load, the Company has retired 14 units of fuel crucible furnace and replace them with electric furnace to improve energy efficiency and reduce the emission of sulfur dioxide and other pollutants.</p> <p>(2) Besides carrying out refuse sorting, recycling, reduction and reutilization in support of government policies and environmental hygiene regulations, the Company also carries out energy measurement and statistics in waste management. At the same time, the Company provides personnel performing energy statistics work with professional training to hone their skills and knowledge and make sure all energy statistics generated are true, clear and accurate.</p> <p>(3) The Company has an environmental safety section set up to take charge of environmental management and work safety matters. The</p>	<p>In compliance with the CSR Best Practice Principles.</p> <p>In compliance with the CSR Best Practice Principles</p> <p>In compliance with the CSR Best Practice Principles.</p>



Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
<p>management.</p> <p>(4) Watching the effect of climate change on operating activities and strategies on energy conservation, carbon reduction, and greenhouse gas emission reduction</p>	<p>section also draws up annual energy conservation targets and implement energy saving measures and tackle the environmental issues from four aspects, i.e. production plan, technology upgrade, management statistics, and worksite, and promotion and education.</p> <p>(4) In response to government’s call for energy conservation and carbon reduction, the Company would adjust its production plan as deemed fit to reduce power consumption during peak demand. The Company would post signs at appropriate spots to remind the employees of water and electricity conservation and educate employees about energy conservation and environmental protection laws and knowledge to raise their awareness and sense of responsibility to environmental protection.</p>	<p>In compliance with the CSR Best Practice Principles.</p>
<p>3. Upholding public interest</p> <p>(1) Compliance with relevant labor laws and regulations, protecting the legal rights and interests of employees, and establishment of proper management methods and procedures</p> <p>(2) Providing a safe and healthy work environment for employees, and regularly educating employees on safety and health</p>	<p>(1)The Company abides by the local labor laws and regulations by paying labor and health insurance premiums, pensions, social and medical insurance, and makes contribution to housing provident fund to protect the basic rights of an employee. Employee recruitment, discharge, and salary management and related procedures all follow the Company’s pay and human resources management rules.</p> <p>(2) The Company believes that only mentally and physically healthy employees could produce efficient and high-quality performance in work. Thus the Company endeavors to provide employees with a safe and healthy work environment. The Company has an employee lounge at worksite and arranges annual employee travel activities. In the aspect of work safety, the Company carries out safety management in accordance with the machinery production safety standards and draws up a comprehensive safety management system to identify hazardous factors at work and undertake troubleshooting. Through continuous education, training and promotion, the Company imparts employees with emergency response capability and raises their awareness to work safety. The Company also establishes a work injury prevention and tracking system to build a safe work environment in the hope to reduce the incidence of work-related accidents, thereby alleviating any adverse impact on Company assets and employee safety.</p> <p>(3) To make sure consumer complaints are</p>	<p>In compliance with the CSR Best Practice Principles.</p> <p>In compliance with the CSR Best Practice Principles.</p>

Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
(3) Drafting and making public consumer policy and establishing a clear and effective procedure for accepting consumer complaints	<p>handled and corrective and preventive actions are taken in a timely manner, the Company has set up a department to handle customer complaint and rigorously observes the internal after-sale service management rules in accepting, handling, and following up customer complaints and file related information afterwards. The Company also conducts consumer satisfaction survey in January and July each year so as to obtain valid customer feedback on services relating to delivery, service, quality, quantity and price, and use the information as important basis for improving the quality of after-sale service.</p>	In compliance with the CSR Best Practice Principles.
(4) Cooperating with suppliers to jointly foster a stronger sense of corporate social responsibility	(4) The Company would invite suppliers to participate in large charity events where the Company, employees and suppliers all contribute their time and money to jointly fulfill our social responsibility.	In compliance with the CSR Best Practice Principles.
(5) Participation in community development and charity work through commercial activities, non-cash donation, volunteer service or other free professional services	<p>(5) The Company’s participation in community development and charity work embraces the following three themes:</p> <p>A. Sunshine Actions AirTAC holds regular “Sunshine Actions” activities, organizing colleagues to visit underprivileged people living in charity homes.</p> <p>a. AirTAC donated money to Genesis Foundation – Banchiao Branch to help provide residential care, house chores, doctor visits and home care services to the impoverished residents in vegetative state, elderly living alone, elderly with dementia, and homeless people;</p> <p>b. AirTAC donated money to Datong Children’s Home to help provide early intervention services to pre-schoolers with delayed development and handicapped children;</p> <p>c. AirTAC donated money to St. Teresa Children Center to help care for orphans, abandoned children, abused children and children in distress to enable them to grow up in a stable environment and receive good education;</p> <p>d. AirTAC donated money to Maria Wufeng Children’s Home to help provide special education, physical therapy, language therapy, sensory integration training and counseling services to handicapped children;</p> <p>e. AirTAC donated money and bus to</p>	In compliance with the CSR Best Practice Principles.

Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	<p>Fragrant Garden Memorial Children’s Home to help provide convalescent treatment and transportation services to handicapped children.</p> <p>f. AirTAC donated money to Yi Kuang Orphanage to help provide accommodation and raise young orphans and handicapped vagrant children.</p> <p>g. AirTAC donated money to Taiwan Pingtung Bethany Home to help improve the quality of their drinking water and water the organic green bamboo shoots grown by them.</p> <p>h. AirTAC helped twin sisters both with severe hearing impairment to have electronic ears installed;</p> <p>i. AirTAC helped pay for the medical expenses of a Vietnamese who got injured in an accident in 2006 and could not afford the medical expenses; and</p> <p>j. AirTAC continued the village construction project in Xide County, Liangshan, Sichuan Province, China, and infrastructure improvement projects at Linqun Village, Zhenguan Town, Wushan County, Tianshui City, Gansu Province, and Xikou Town, Fenghua City, Zhejiang Province, and participated in winter aid activities and aided impoverished families in Jejiang, Guangdong, Jiangsu, Sichuan and Guizhou.</p> <p><b>B. Education projects</b> AirTAC cares about the education in Taiwan and has developed the “Blue School Assistance Project” and “Home for Left-Behind Students” project.</p> <p>a. AirTAC made regular donations to “Ju Yuan Elementary” to help improve the school’s software and hardware facilities and develop all kinds of educational programs;</p> <p>b. AirTAC set up a “Financial Aid Foundation” in Guangdong China to provide long-term assistance to single, impoverished mothers, women who lost their jobs, poor students, and severely ill children to pass the hard time;</p> <p>c. AirTAC set up a “Yu Mei Scholarship” program to help poor students at Guangdong Zhongshan University and students in “Pearl Class” of Jejiang Xinhua Compassion Senior High School who have been admitted to university to help them finish their college education;</p> <p>d. AirTAC provides regular financial aid to</p>	

Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	<p>poor students in a class in Nanchong City, Sichuan Province, China to help them learn a skill that will enable them to make a living;</p> <p>e. AirTAC set up 20 “Home for Left-Behind Students” in Bazhong City, Sichuan Province to help students who grew up without the accurate guidance of their parents or education and are behind in school, helpless, psychologically imbalanced, or without protection.</p> <p>C. Emergency relief</p> <p>a. AirTAC donated money and goods to victims of “921 Earthquake” and “88 Flood” in Taiwan to help them rebuild their homes and restart production;</p> <p>b. AirTAC donated money to Ju Yuan Police Precinct to help the Precinct participate in emergency rescue or hold charity activities; and</p> <p>c. AirTAC donated money to help an overseas Chinese living in the Philippines and afflicted with serious illness to fly back to Taiwan for treatment on an air ambulance.</p>	
<p>4. Disclosure of corporate social responsibility information</p> <p>(1) Method of disclosing relevant and reliable corporate social responsibility related information.</p> <p>(2) Disclosing the efforts in promoting corporate social responsibility in CSR report</p>	<p>(1) The Company reveals performance of corporate social responsibility in annual report and discloses CSR operation and sponsorship activities on its website.</p> <p>(2) The Company has not produced any CSR report, but will in the future in view of actual needs to disclose more information on the Company’s efforts in promoting CSR.</p>	<p>In compliance with the CSR Best Practice Principles.</p> <p>Under planning.</p>
<p>5. If the company has established its corporate social responsibility guidelines in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (the “CSR Best Practice Principles”), describe the operational status and differences with the CSR Best Practice Principles: The Company is in the process of drafting its corporate social responsible guidelines and relevant rules.</p>		
<p>6. Other important information to facilitate better understanding of the Company’s implementation of corporate social responsibility (e.g., environmental protection, community participation, social contribution, social services, public interest, consumers rights, human rights, and safety and health, and other systems and measures adopted for social corporate responsibility activities): None.</p>		
<p>7. The Company’s product or corporate social responsibility report that has passed the examination of a certification institution: None.</p>		

3.3.6 The state of the Company’s performance with respect to honest and good faith management and the adoption of related measures: The Company operates by the principle of honesty and conducts business in compliance with applicable laws and regulations.

3.3.7 Ways to inquire the Company’s corporate governance best-practice principles or related rules

The Company has not established corporate governance best-practice principles and related rules. But as described above, the Company is in essence operating based on the spirit of corporate governance and related rules. In the future, the Company will revise relevant management measures and procedures to enhance information transparency and strengthen the functions of the board of directors in the efforts of promoting corporate governance.

3.3.8 Other significant information that will provide a better understanding of the state of the Company's implementation of corporate governance: None.

### 3.3.9 Implementation Status of Internal Control Systems

#### (1) Statement on Internal Controls

AirTAC International Group

Statement on Internal Controls

March 14, 2012

The Company states the following with regard to its internal control systems for 2011 based on the results of self-evaluation:

1. The Company is fully aware that the establishment, implementation, and maintenance of the internal control systems are the responsibility of the board of directors and management. The Company has established such a system with the objective to provide reasonable assurance for accomplishment of operational results and efficiency (including profits, performance, and safeguard of asset security), reliability of financial reports, and regulatory compliance.

2. An internal control system has its inherent limitations. No matter how perfect is its design, an effective internal control system can only provide reasonable assurance for the attainment of the three goals described above. Moreover, the effectiveness of internal control systems could change along with the changes in environment and circumstances. However the Company's internal control system is equipped with the function of self-monitoring, that the Company will take immediate action once a deficiency is identified.

3. The Company determines whether the design and implementation of its internal control systems are effective based on the criteria provided in the *Regulations Governing Establishment of Internal Control Systems by Public Companies* (referred to as the "Governing Regulations" hereunder). Said criteria divide internal control into five elements based on the process of management control: 1. Control Environment, 2. Risk Assessment and Response, 3. Control Operation, 4. Information and Communication, and 5. Supervision. Each element contains several items. Please refer to the Governing Regulations.

4. The Company has evaluated the validity of the design and implementation of its internal control systems based on the aforesaid criteria.

5. Based on the results of aforementioned evaluation, it is found that the internal control systems of the Company for the year ended December 31, 2011 (including the supervision and management of subsidiaries) was effective in design and implementation, that it reasonably assures the accomplishment of aforesaid goals, including learning the extent of operational results and efficiency achievement, reliability of financial reports, and regulatory compliance.

6 This Statement shall become a major part of the Company's annual report and be made public. Any false representation or concealment in this Statement shall be subjected to legal consequences as stipulated in Articles 20, 32, 171 and 174 of the *Securities and Exchange Act*.

7. This statement has been passed by the Company's board of directors in a meeting held on March 14, 2011, where 0 of the nine attending directors voiced dissenting view to the content of this statement, whereas the rest gave their assent.

AirTAC International Group

Chairman: Wang Shih-Chung

President: Lan Shun-Cheng

(2) Where a CPA was engaged to examine the internal control systems, disclose the CPA examination report: N/A.

3.3.10 Any legal sanctions against the Company or its internal personnel, or any disciplinary action taken by the Company against its own personnel for violation of internal controls, during the most recent fiscal year and up to the date of annual report, major deficiencies associated with the sanction and status of improvement actions taken: The company implemented correction and improvement according to letter received on Oct. 25, 2011 from the Taiwan Stock Exchange Corporation (TSEC 2<sup>nd</sup> No. 1001703803) indicating items to be improved regarding the design or implementation of the company's internal controls.

3.3.11 Important resolutions adopted in shareholders' and board of directors meetings in the most recent year and the current year up to the date of annual report:

Meeting	Date	Important resolutions
Board of Directors Meeting	2011/1/3	Approval of the proposed 2011 capital expenditure plan.
Board of Directors Meeting	2011/3/11	<ol style="list-style-type: none"> <li>1. Approval of the consolidated financial statements of the Company and its subsidiaries for the year 2010</li> <li>2. Approval of the time and place of the Company's annual general meeting of the shareholders 2011, deadline of transferring, and motion of the Board meeting</li> <li>3. Approval of earnings distribution proposal for the year 2010</li> <li>4. Approval of amendments to the existing amended and restated memorandum and articles of association of the Company</li> <li>5. Approval of the amendments to the <i>Guideline for Endorsement and Guaranty</i> and <i>Guideline for Loaning Funds to Others</i></li> <li>6. Approval of the Internal Control System Statement</li> <li>7. Approval of purchasing of directors' liability insurance</li> </ol>
Board of Directors Meeting	2011/4/27	<ol style="list-style-type: none"> <li>1. Approval of the establishment of AirTAC (China) Co., Ltd.</li> <li>2. Approval of capital increase of Ningbo AirTAC Automatic Industrial Co., Ltd.</li> <li>3. Approval of amendments on the amended and restated memorandum and articles of association of the Company</li> <li>4. Approval of the applicable exchange rate of Chinese Yuan Renminbi (RMB) against New Taiwan Dollar (NTD) for the cash dividends distribution for the year 2010</li> </ol>
Shareholders' Meeting	2011/6/9	<ol style="list-style-type: none"> <li>1. Approval of the business report and consolidated financial statement of AirTAC International Group for the year 2010</li> <li>2. Approval of distribution of dividends for the year 2010</li> <li>3. Approval of the amendments to the <i>Procedure for Endorsement and Guarantee Operation</i> and <i>Guideline for Loaning Funds to Others</i></li> <li>4. Approval of amendments on the amended and restated memorandum and articles of association of the Company</li> </ol>

Meeting	Date	Important resolutions
Board of Directors Meeting	2011/6/9	1. Approval of interest base date for distribution of dividends for the year 2010 2. Approval of the establishment of Singapore subsidiaries.
Board of Directors Meeting	2011/8/12	1. Approval of transaction between Ningbo Airtac Automatic Industrial Co., Ltd. and Airtac (China) Co., Ltd. regarding division of land. 2. Approval of the change of accountant of Deloitte & Touche
Board of Directors Meeting	2011/11/1	1. Approval of setting up the Remuneration Committee 2. Passed the rule of procedure of board of directors' meeting 3. Passed the management policy of the company and affiliates, and the amendment of internal controls system 4. Passed the audit plan for the year 2012
Board of Directors Meeting	2011/12/16	No major resolutions being made.
Board of Directors Meeting	2012/3/13	1. Acknowledge the consolidated financial statements of the company and subsidiaries for the year of 2011 2. Approval of the time and place of the company's annual general meeting of the shareholders 2012, deadline of transferring and motion of the shareholders' meeting 3. Approval of the distribution of dividend for the year of 2011 4. Approval of the amendment to Company's Articles of Association 5. Passed the audit plan for the year of 2012 (Renewed Version) 6. Passed the amendment of relative operation method of the Company's management policy 7. Passed the amendment of the internal controls system 8. Passed the statement of the internal controls system 9. Passed the contract extension of purchasing directors' liability insurance
Board of Directors Meeting	2012/4/27	1. Acknowledgement of the consolidated financial statement of the Company and subsidiaries for the 1 <sup>st</sup> quarter of 2012 2. Passed the amendment of the Company's Articles of Association

3.3.12 The major content of any dissenting opinion of any director or supervisor regarding any material resolution passed by the board of directors, where there is a record or written statement of such opinion, for the most recent fiscal year and up to the date of annual report: None.

3.3.13 Summary of resignations/dismissals of persons in connection with the financial report (including chairman, president, accounting chief and chief audit officer) during the most recent fiscal year and up to the date of annual report: None

### 3.4 Information on CPA Professional Fees

#### 3.4.1 CPA fees information

Name of accounting firm	Name of CPA		Audit period	Remark
Deloitte & Touche Taiwan	HSIEN MING CHUNG	Jacky M. Chen	2011.1.1-2011.12.31	

In 1,000 TWD

Fee item		Audit fees	Non-audit fees	Total
1	<\$2,000,000	1,800	500	2,300
2	\$2,000,000 (inclusive)~\$4,000,000			



3	\$4,000,000 (inclusive)~\$6,000,000			
4	\$6,000,000 (inclusive)~\$8,000,000			
5	\$8,000,000 (inclusive)~\$10,000,000			
6	>\$10,000,000 (inclusive)			

In 1,000 TWD

Name of accounting firm	Name of CPA	Audit fees	Non-audit fees					Audit period	Remark
			System design	Business registration	Human resources	Others	Subtotal		
Deloitte & Touche	HSIEN MING-CHUNG Jacky M. Chen	1,800				500	500	2011	Note

Note: The aforesaid CPA fees do not include fees of RMB 100,000 (equivalent to TWD 481,000, according to the exchange rate of 4.807 in the end of 2011) paid to Deloitte Touche Tohmatsu in China in 2011, in which the non-audit fees were for listing consultation.

3.4.2 When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm is one quarter or more of the audit fees paid thereto: N/A.

3.4.3 When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous year: N/A.

3.4.4 When the audit fees paid for the current year are lower than those for the previous fiscal year by 15 percent or more: N/A.

### 3.5 Information on replacement of CPA

#### 3.5.1 Former CPA

Replacement Date	Aug. 12, 2011			
Reasons and Explanation of the Replacement	To coordinate the internal organizational adjustment of the accounting firm			
Appointment termination or appointment not accepted by the CAP or appointer	Situation	Parties	CPA	Appointer
	Initiatively terminate the appointment		N/A	
	Appointment not accepted (renewed)			
Suggestion and reasons of the audit statement besides those with no reserved suggestions in recent two years	None			
Dissenting opinions with the issuer			Accounting principles or practice	
			Disclosure of the Financial Statement	

			Audit range or procedure
			Other aspects
	None	V	
	Explanation		
Other disclosing items (the conditions supposed to be disclosed in Article 10.5.1.4)	None		

### 3.5.2 The assigned CPA

Name of Accounting Firm	Deloitte & Touche
Name of CPA	HSIEN MING-CHUNG, Jacky M. Chen
Date of Appointment	Aug. 12, 2011
Consultant items and results of the opinions may be issued by CPA regarding the accounting processing method of specific transaction or the financial statement before being appointed	None
Written opinion of dissenting opinions of succeeded CAP toward former CAP	None

### 3.5.3 Reply Letter of former CPA regarding the item stated in the Article 10.5.1 and 10.5.2.3 hereinafter.

3.6 Where the company's chairperson, president, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None.

3.7 Transfer of equity interest and/or pledge of or change in equity interest by a director, supervisor, managerial officer, or shareholder holding more than 10 percent equity in the most recent year and up to the date of annual report:

(1) Change in equity interest of directors, supervisors, managers and major shareholders (the Company does not have supervisors)

Unit: shares

Title	Name	2011		Up to April 16, 2012	
		Increase (decrease) of shares held	Increase (decrease) of shares pledged	Increase (decrease) of shares held	Increase (decrease) of shares pledged
Chairman	Wang Shih-Chung	—	—	—	—
Director	Gordon Shaw	—	—	—	—
Director & President	Lan Shun-Cheng	—	—	—	—
Director	Wang Hai-Ming	—	—	—	—

Title	Name	2011		Up to April 16, 2012	
		Increase (decrease) of shares held	Increase (decrease) of shares pledged	Increase (decrease) of shares held	Increase (decrease) of shares pledged
Director & President of Jianliang (Shanghai)	Lin Chiang-Ti	—	450,000	—	(150,000)
Director & VP of Jianliang (Shanghai)	Wang Hong-Bing	—	—	—	—
Independent Director	Chang Bao-Guang	—	—	—	—
Independent Director	Chiang Chih-Chun	—	—	—	—
Independent Director	Leong Kam-Son	—	—	—	—
President of Guangdong AirTAC	Lin Yong-Feng	—	—	—	—
President of Taiwan AirTAC	Yang Kuo-Yi	(34,000)	—	10,000	—
President of Ningbo AirTAC	Li Hui-Wen	—	—	—	—
Chief Financial Officer	Tsao Yung-Hsiang,	(30,000)	(60,000)	15,000	—
Chief Audit Officer	Lin Chian-Ming	(27,000)	(63,000)	—	—
10% shareholder	Baring Private Equity Asia III Holding (6A) Limited (Note)	(10,835,625)	—	—	—
10% shareholder	Ding Kan Investment Ltd.	—	—	—	—

Note: The share transfer was 10,835,625 on June 14, 2011 and lost the identity of more than 10% shareholder.

- (2) The counterparty of share transfer is a related party: None.  
(3) The counterparty of share pledge is a related party: None.

3.8 Relationship information- if among the 10 largest shareholders any one is a related party, as defined in the Statement of Financial Accounting Standards No. 6, or is the spouse or a relative within the second degree of kinship of another

Unit: shares; 2012.04.16

Name	Shares held by self		Shares held by spouse and minor children		Shares held in other's name		The title or name and relationship of top ten shareholders if they are a related party as defined in the Statement of Financial Accounting Standards No. 6, or the spouse or a relative within the second degree of kinship to another (Note 3)		Remark
	Shares	%	Shares	%	Shares	%	Title (name)	Relationship	
Ding Kan Investment Ltd.	23,773,000	15.85%	—	—	—	—	Lin Shu-Mei	Spouse of a director	Note
Baring Private Equity Asia III Holding (6A) Limited	11,219,000	7.48%	—	—	—	—	—	—	Investment fund
Core Value Fund Ltd	10,835,625	7.22%	—	—	—	—	—	—	Investment fund
YHZ Ltd.	10,432,850	6.96%	—	—	—	—	—	—	Note
Express Brilliant Ltd	8,665,000	5.78%	—	—	—	—	—	—	Note
Investment Account of Central Bank of Saudi Arabia Partners under the trust of JPM (Taiwan)	7,543,000	5.03%	—	—	—	—	—	—	—
Chen Rui-Long	5,025,065	3.35%	—	—	—	—	—	—	—
Investment Account of Goldman Sachs Investment Partners Master Fund under the trust of Standard Chartered Bank Dunpei Branch (Taiwan)	4,827,000	3.22%	—	—	—	—	—	—	—
Lin Shu-Mei	4,175,357	2.78%	—	—	—	—	Ding Kan Investment Ltd.	Spouse of a director	—
Indian Western Pacific Small Companies Master Fund under the trust of HSBC	3,807,000	2.54%	—	—	—	—	—	—	—

Note: All are trust accounts.

3.9 The total number of shares and total equity stake held in any single enterprise by the Company, its directors and

supervisors, managers, and any companies controlled either directly or indirectly by the Company:

Unit: shares; %

Investment	Investment by the Company		Investment by directors, supervisors, managers and companies controlled directly or indirectly by the Company		Total investment	
	Shares	%	Shares	%	Shares	%
Airtac Industrial (Hong Kong) Limited	26,000,000	100%	—	—	26,000,000	100.00%
Airtac Trading (Hong Kong) Limited	7,000,000	100%	—	—	7,000,000	100.00%
Instant Reach International Limited	1	100%	—	—	1	100.00%
Airtac Holding (Singapore) Pte. Limited	10,000,000	100%	—	—	10,000,000	100.00%
Ningbo AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100.00%
Guangdong AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100.00%
AirTAC (China) Co., Ltd.	Note	100%	—	—	Note	100.00%
Jianliang (Shanghai) Trading Co.	Note	100%	—	—	Note	100.00%
AirTAC Industrial Co.	12,340,650	53.655%	—	—	12,340,650	53.655%
ATC (ITALIA) S.R.L	3,000,000	100%	—	—	3,000,000	100.00%
Airtac International (Singapore) Pte. Limited	9,500,000	100%	—	—	9,500,000	100.00%

Note: The subsidiaries in China are limited companies that do not issue shares.

## 4. Capital Raising Overview

### 4.1 Capital and Shareholding

#### 4.1.1 Sources of capital

##### 1. Types of shares

April 16, 2012; Unit: shares

Type of shares	Authorized capital			Remark
	Issued and outstanding	Unissued	Total	
Registered common shares	149,999,998	50,000,002	200,000,000	Listed stocks

##### 2. Capital formation

Unit: \$/share

Year/month	Issue price	Authorized capital		Paid-in capital		Remark		
		Number of shares	Amount	Number of shares	Amount	Sources of capital	Capital contribution other than cash	Others
2009.09	US\$1	20,000,00	US\$20,000,000	1	US\$ 1	Cash capital increase	—	—
2009.10	US\$1	20,000,00	US\$20,000,000	1	US\$ 1	—	Long-term investment	—
2009.12	US\$1	20,000,00	US\$20,000,000	2	US\$ 2	—	Long-term investment	—
2009.12	US\$1	20,000,00	US\$20,000,000	19,999,996	US\$19,999,996	Capitalization of capital surplus	—	—
2010.04	TWD 10	200,000,000	2,000,000,000	64,699,999	TWD 646,999,990	(1) The originally authorized capital of US\$20,000,000 is changed to TWD 2,000,000,000 (2) Originally issued USD20,000,000 capital is converted to TWD 647,000,000.	—	Note 1
2010.06	TWD 10	200,000,000	2,000,000,000	132,999,998	TWD 1,329,999,980	Capitalization of capital surplus in the amount of TWD 683,000,000	—	Note 2
2010.12	TWD 10	200,000,000	2,000,000,000	149,999,998	TWD 1,499,999,980	Issuance of new shares in the amount of TWD170,000,000 for cash capital increase	—	Note 3

Note 1: Passed in shareholders' meeting held on 2010.04.07.

Note 2: Capitalization of capital surplus has been approved in shareholders' meeting held on 2010.06.29.

Note 3: Issue of new shares for cash capital increase has been approved in shareholders' meeting held on 2010.06.29.

### 3. Information of Shelf Registration: N/A.

#### 4.1. O2 Shareholder structure

2012.04.16; unit: shares

Shareholder entity	Government agency	Financial institution	Other juristic person	Individuals	Foreign institutions and foreigners	Total
No. of people	-	8	33	1,884	149	2,074
No. of shares held	-	988,000	2,175,605	30,442,738	116,393,655	149,999,998
Percentage of ownership (%)	-	0.66%	1.45%	20.30%	77.59%	100.00%

Note 1: Calculated based on capital after issue of new shares for cash capital increase approved in general

shareholders' meeting held on 2010.06.29.  
 Note 2: China investors own 17.23% of stocks.

#### 4.1.3 Dispersion of stock ownership

##### 1. Common Shares

Face value per share: TWD 10; 2012.04.16; unit: shares

Shares	Number of shareholders	Total shares held	Percentage of ownership
1 ~ 999	99	11,338	0.01%
1,000 ~ 5,000	1,620	2,775,087	1.85%
5,001~ 10,000	110	864,439	0.58%
10,001~ 15,000	30	397,810	0.27%
15,001~ 20,000	31	572,848	0.38%
20,001~ 30,000	27	694,000	0.46%
30,001~ 50,000	36	1,436,685	0.96%
50,001~ 100,000	28	2,063,000	1.38%
100,001~ 200,000	28	4,064,000	2.71%
200,001~ 400,000	21	6,622,362	4.41%
400,001~ 600,000	9	4,212,901	2.81%
600,001~ 800,000	7	4,926,396	3.28%
800,001~1,000,000	5	4,759,103	3.17%
>1,000,001	23	116,600,029	77.73%
Total	2,074	149,999,998	100.00%

2. Preferred Shares: No preferred share being issued by the Company.

4.1.4 List of major shareholders: Names, shares and percentage of shareholding of shareholders with more than 5% of Company's shares:

April 16, 2012; Unit: shares

Name of major shareholder \ Shareholding	Shares held	Percentage
Ding Kan Investment Ltd.	23,773,000	15.85%
Core Value Fund Ltd	11,219,000	7.48%
Baring Private Equity Asia III Holding (6A) Limited	10,835,625	7.22%
YHZ Ltd.	10,432,850	6.96%
Express Brilliant Ltd	8,665,000	5.78%
Investment Account of Central Bank of Saudi Arabia under the trust of JPM	7,543,000	5.03%
Chen Rui-Long	5,025,065	3.35%
Investment Account of Goldman Sachs Investment Partners Master Fund under the trust of Standard Chartered Bank Dunpei Branch (Taiwan)	4,827,000	3.22%
Lin Shu-Mei	4,175,357	2.78%

Indian Western Pacific Small Companies Master Fund under the trust of HSBC	3,807,000	2.54%
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#### 4.1.5 Stock price, net worth, earnings, dividends per share and related information (2010-2011)

Unit: TWD; 1,000 shares

Item		Year	2010	2011	2012/03/31 (Note 1)
Stock price	High		166.00	272.00	181.50
	Low		130.00	107.00	120.50
	Average		152.47	185.67	158.01
Net worth per share	Basic		29.41	35.78	36.54
	Diluted		24.60	(Note 7)	—
Earnings per share	Weighted average shares		134,025	150,000	150,000
	Earnings per share (Note 2)		7.76	9.00	1.57
Dividends per share	Cash dividend		4.36	5.30 (Note 7)	—
	Stock dividend	Earnings (TWD)	—	—	—
		Capital surplus (TWD)	—	—	—
	Accumulated unpaid dividend (Note 3)		—	—	—
Return analysis	Price-earnings ratio (Note 4)		19.65	20.63	25.16
	Price-dividend ratio (Note 5)		34.97	35.03	—
	Cash dividend yield (Note 6)		0.03%	0.03%	—

Note 1: The 2012 Q1 financial statements are CPA audited.

Note 2: Calculated using retroactively adjusted weighted average shares according to the resolution of capitalization of capital surplus adopted in shareholders' meeting held on June 29, 2010.

Note 3: Accumulated unpaid dividend up to the current year should be disclosed if the stock issuance terms and conditions provide that dividends of the current year may be accumulated to a profitable year before distribution.

Note 4: Price-earnings ratio = Year's average per share closing price / earnings per share.

Note 5: Price-dividend ratio = Year's average per share closing price / cash dividend per share.

Note 6: Cash dividend yield = Cash dividend per share / year's average per share closing price.

Note 7: The 2011 earnings distribution plan is awaiting the approval of shareholders.

#### 4.1.6 Dividend policy and implementation thereof

##### 1. Dividend policy set out in the Company's Articles of Association

According to the Company's amended Articles of Association passed in general shareholders' meeting held on June 29, 2010, annual earnings shall be used to offset prior years' deficits. Then special reserve shall be set aside in accordance with laws and regulations governing public companies or the requirements of the competent authorities; next 3% ~ 6% of the annual earnings proposed to be distributed is set aside as employee bonus. The board of directors should decide in the proposed earnings distribution plan the percentage that will be distributed as employee bonus, whereas shareholders can revise the proposal before adopting a resolution thereon. Directors who also act as an executive officer of the Company are eligible for employee bonus.

The remainder of earnings, if any, may be distributed as stock dividends or cash dividends or both in accordance with the applicable laws and regulations and in consideration of the year's profit situation and the Company's capital structure. Unless it is otherwise decided by the shareholders' meeting and board of directors' meeting, the amount of earnings distributed shall not be less than 60% of the year's after-tax earnings.

2. Proposed dividend distribution for the year

According to the 2011 dividend distribution plan passed by the board of directors in meetings held on March 14, 2012, the Company will distribute cash dividend in the amount of RMB 1.13 for 2011 (equivalent to TWD 5.3). Total cash dividends to be distributed for the year amount to TWD 794,999,989.

4.1.7 Effect of the proposed stock dividends (to be adopted in the shareholders' meeting) on the operating performance and earnings per share: N/A.

4.1.8 Employee bonus and remuneration to directors and supervisors (the Company does not have supervisors):

1. Information on employee bonus and remuneration to directors and supervisors provided in Company's Articles of Association

The Company shall use annual earnings to offset prior years' deficits, then set aside special reserve in accordance with laws and regulations governing public companies or the requirements of the competent authorities, and then set aside 3% ~ 6% of the annual earnings proposed to be distributed as employee bonus. Directors who also act as an executive officer of the Company are eligible for employee bonus.

2. Basis for estimating employee bonus and remuneration to directors and supervisors, basis for deciding number of shares when distributing stock bonus to employees, and accounting treatment for discrepancy between such amounts and the estimated figures:

(1) The Company's directors do not receive distribution of earnings.

(2) At the end of a fiscal year, significant changes in the amounts of employee bonus and remuneration to directors as decided by the board of directors will be recorded under the year's expense. If the amounts again change on the date earnings the earnings distribution plan is adopted in a shareholders' meeting, the difference will be treated as changes in accounting estimates and recorded in the year the shareholders adopt the resolution.

(3) If it is decided in shareholders' meeting that employee bonus will be distributed in the form of stock bonus, the number of shares of stock bonus will be determined by the amount of bonus divided by the market value of stock. The market value of stock is its closing price on one day before the day the shareholders adopt the resolution.

3. Information on proposed employee bonus as approved by the Board of Directors

(1) Amounts of employee cash bonus and stock bonus as well as remuneration to directors and supervisors

Employee cash bonus in 2011 totals RMB 8,310,000.

(2) Amount of proposed stock bonus as a percentage of the year's after-tax income and total employee bonus: N/A.

(3) Employee bonus expense has been provided in the 2011 financial statements, and earnings per share for the year are TWD 9 on such basis.

4. Information on distribution of previous year's earnings as employee bonus and remuneration to directors and supervisors: The earnings of 2010 was approved in board of directors' meeting held in 2011, and the employee bonus is RMB 5,440,000.

4.1.9 Stock buy-back: None.

4.2 Issuance of corporate bonds: None.

4.3 Issuance of preferred shares: None.

4.4 Issuance of global depository receipts (GDR): None.

4.5 Exercise of Employee Stock Options: None.

4.6 Issue of new shares for merger or acquisition: None.

4.7 Implementation of fund utilization plan: The Company does not have any incomplete securities issuance or private placement plan, or the situation that such issues and placements were completed in the most recent three years but have not yet fully yielded the expected benefits.

## 5. Operational Highlights

### 5.1 Business Overview

#### 5.1.1 Business activities

##### 1. Scope of business

##### (1) Major business activities

The Group engages in the manufacture and sale of pneumatic control components, pneumatic actuator, air preparation units and pneumatic accessories.

##### (2) Revenue breakdown by product

Unit: TWD 1,000; %

Product	2010		2011	
	Amount	% of revenue	Amount	% of revenue
Actuator	1,691,781	39.35%	2,258,078	40.05%
Control components	1,318,697	30.67%	1,705,245	30.24%
Air preparation units	439,571	10.23%	576,677	10.23%
Others	849,044	19.75%	1,098,304	19.48%
Total	4,299,093	100.00%	5,638,304	100.00%

##### (3) Core products (services)

Actuator(cylinder)	Standard cylinder, twin rod cylinder, pen cylinder, compact cylinder, miniature cylinder, locking cylinder, multi-position cylinder, slide table cylinder, three-axis cylinder, stopper cylinder, swing clamp cylinder, welding clamp cylinder, rodless cylinder
Control component (valve)	Solenoid valve, mechanical control valve, pneumatic control valve, manual control valve
Air preparation unit	two-point combination unit, filter regulator, filter, automatic drainer, pressure gauge, regulating valve, oil feeder, F.R.L. combination unit

##### (4) New products (services) under development

① Actuator (cylinder): compact cylinder (ACE series), cylinder with valve, magnetically coupled three-axis cylinder, precision slide table cylinder (side guide, 2-axis), pneumatic gripper (parallel, Y-shaped), mechanical rodless cylinder, HRO rotary cylinder, ACQ compact cylinder with large bore size, STW locking cylinder, pin cylinder, compact rotary cylinder, pneumatic actuator, ACQL locking cylinder, and standard cylinder (SI/JSI/SE).

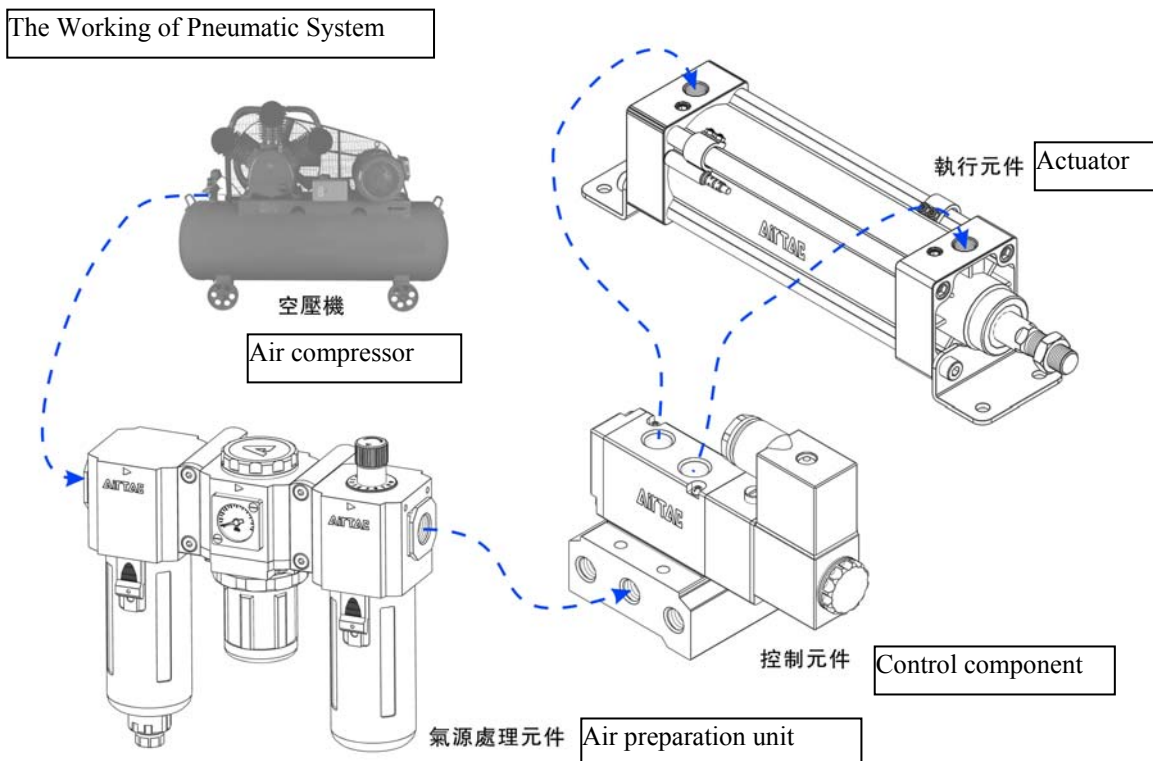
② Control components (valve): ASV solenoid valve, 2JS/2JW angle valve, ZM3 mechanical valve, ESV/EAV600 ISO valve, fast exhausting valve, dual pressure valve, shuttle valve, one-way valve, 15mm pilot valve, precision regulating valve, SDR regulating valve, and three-way valve of straight through type.

③ Others: two-way connector, floating joint.

## 2. Industry overview

### (1) Description of pneumatic components

“Pneumatic” is an abbreviation for “pneumatic technology” or “pneumatic transmission and control”. Pneumatic technology is a modern-day and practical technology that uses compressor as power source. The compressed air generated after it is treated by an air preparation unit is used as a working medium, where a control component (directional control valve) is used to change the inflow/outflow frequency, speed, and direction of the compressed air, and an actuator (cylinder) is used to convert the energy of compressed air into kinetic energy to drive a predetermined movement.



Pneumatic technology is an important means to achieve production control and automatic control. It offers the advantages of energy saving, pollution free, high efficiency, low cost, safety, reliability, and structural simplicity. Pneumatic components are used extensively in machinery and production lines, mainly as key components in mechanical automation system. The extensive applications of pneumatic technology today symbolize the advances the pneumatic industry has gained. It is also the must-tread path to industrial upgrade.

In the past, pneumatic technology was used simply in low-cost automation process to save labor. In recent years, its applications broaden along with the advancement of the

pneumatic technology itself and its support technologies. A few representations of pneumatic technology are discussed as follows:

- A. A classic example of electro-mechanical integration is a control system composed of “computer remote control + programmable controller + sensor + pneumatic component.” In the example of automotive industry, such systems are used in welding production line, fixtures, robot, conveyor, assembly line, painting line, generator, and tire manufacturing.
- B. Composite integration that helps reduce the use of cables (e.g. serial transmission), piping and components to save space, simplify assembly/disassembly process and improve work efficiency.
- C. Production automation and parts processing and assembly on mechanical processing line, such as the handling, inversion, positioning, clamping, feeding, unloading, assembly, cleaning and testing of workpieces.
- D. Automated metering and packaging of powder, granulated and lump materials in fertilizer, chemical, food, pharmaceutical and bioengineering industries, automated cigarette rolling and packaging in tobacco industry, and automated metering and filling of viscous liquids (e. g. paint, ink, cosmetic and toothpaste) and toxic gas (e.g. gas).

## (2) International pneumatic component technology

The union of fluid, microelectronics and computer technologies charts a new horizon for pneumatic technology. According to reported data, 95% production machinery, 90% numerically controlled machining center, and 95% automated production lines around the world now adopt pneumatic technology. Pneumatic technology is applied in many fields of the national economy. The level of pneumatic applications has become an important yardstick of a country's industrial level.

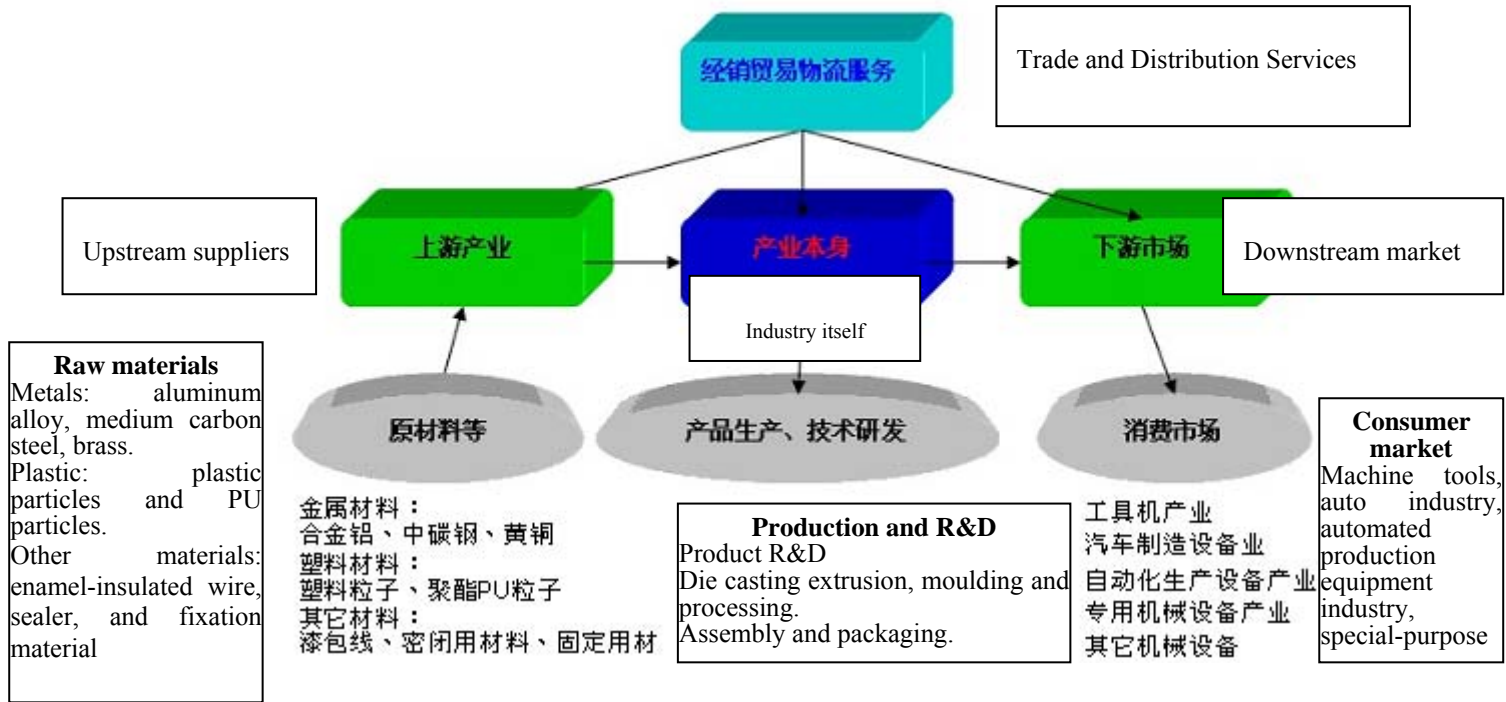
## (3) 2005-2011 market demand analysis

In China today, agriculture, hydraulic engineering, energy, transportation, information, construction and environmental protection industries are experiencing faster growth, that also jack up the demands for mechanical equipment. In most cases, mechanical equipment calls for large quantities of high-performance and highly reliable pneumatic components. According to the statistic of the China Hydraulics Pneumatics & Seals Association, the pneumatic industry realized a total industrial output value of RMB15046 million, with a growth of 29.60% in 2011. Along with changes in the macroenvironment of the mechanical industry, specifically agricultural machinery, construction machinery, metallurgy and mining equipment, machine tools, plastic machinery, automobile, motorcycle, and petrochemical equipment. In addition, pneumatic products will have promising outlook in hydraulic engineering equipment, underground construction equipment, logistics equipment, aviation, railway, vehicles, pharmaceutical, printing and recreational equipment markets.

## (4) Pneumatic component industry chain

The Company is specialized in the R&D, manufacture and sale of pneumatic components that are used extensively in machine tools, automated production equipment, automobile manufacturing equipment, and special-purpose machinery. As the Company continues to develop new products, the fields of application for the Company's products also continue to expand.

The Company is in the mid-stream (the industry itself) in the pneumatic component industry chain. Its upstream comprises suppliers of aluminum, steel, cooper and plastic materials. The midstream manufacturers produce pneumatic components, using die casting, extrusion, injection moulding and punching technologies. The downstream are users in machinery, equipment and related application fields.



### A. Upstream material supplies:

Raw materials used for the production of pneumatic products are classified as follows:

Metal: aluminum alloy, zinc alloy, medium carbon steel and brass.

Plastic: plastic particles, PU particles, POM, color master batch, POM, steel-reinforced plastic.

Others: enamel-insulated wire, sealer, fixation material, lubricating material and magnetic materials.

### B. Downstream industries

According to the statistical data from China Hydraulic Pneumatic Sealing Parts Industry Association, the capacity of domestic market in the pneumatics industry was RMB 17782 million in 2011 (while it's RMB 13894 million in the same period of 2010), growing 27.98%.

The downstream industries are consumer markets of pneumatic products, primarily machine tool, automobile manufacturing equipment, automated production equipment, special-purpose equipment and other equipment industries.

### (5) Market competition

Different industries need different kinds of pneumatic products. The costs of R&D, equipment, brand establishment, and marketing arising thereof also differ significantly.

That is why some brandname pneumatic component manufacturers would command large market shares. Thus even though there are a large number of manufacturers on the pneumatic component market, the number of brandname manufacturers that would be considered as competitor is limited. In China's market, major manufacturers include SMC (Japan), FESTO (Germany), and Packer (USA), of which, SMC is the market leader with 31% market share. SMC is also a leader in the world market with more than 30% market share. FESTO (Germany) is the world's second largest pneumatic component manufacturer with 8% market share in China and 19% market share in the world, ranking No. 3 and No. 2, respectively. But FESTO owns a large number of pneumatic product related patents and software design capability that allows it to provide whole-plant design service, making it technology-wise the best manufacturer in the industry. SME and FESTO combined account for more than 40% market share in China and more than 49% in the world. Other world leading brands in the China market, including CKD (Japan), Norgren (UK), Packer (USA), account for 23% of market share. With the advantages of price, customized or convenient and readily available services, local manufacturers in China command 25% of market share.

In the past 10 years, the market shares of large pneumatic component makers in China have been consistently eroded by local and small manufacturers. In the past, the products of large makers demanded higher price and were purchased largely by foreign companies and companies from their home country in China. As China's pneumatic market plays an increasingly significant role in the world market, demands in the local market rise. But under price consideration, foreign brand products will probably be gradually replaced by products made by local makers such that the market shares of Chinese brand products will rise gradually along with growing market demand.

### 3. Technology and R&D overview

#### (1) Technical levels of Company products and R&D

The Company has been keen on nurturing R&D personnel, investing in R&D and creating a corporate environment conducive to innovation. In 2007, seventeen new products developed by the Company, including prevision twin rod cylinder, needle cylinder, oil buffer, and high-flow, low-pressure regulating valve were included in the Ningbo City New Product R&D Initiative. The Company's R&D Center was also rated as a city-level technology center by Fenghua City in 2008, a city-level technology center by Ningbo City, and visited by the State Council in 2009. Those honors recognize the Company's R&D Center as a major R&D facility for pneumatic products and the Company's achievements in the R&D of pneumatic products. The Company's R&D Center was accredited as a province-level R&D Center. The Company currently owns 21 appearance patents (e.g. Pneumatic Preparation Component (GL300 Oil Feeder)), 10 utility model patents (e.g. rotary cylinder), and 5 invention patents (e.g. regulating valve). Patents currently pending include an invention patent application entitled "Magnetic coupling tri-axle cylinder with adjustable buffering structure" that is now under substantive review and a utility model



patent application entitled “Arresting Device” that has been accepted by the State Intellectual Property Bureau. These patents are substantial gain in the Company’s efforts to enhance technological know-how and manpower quality.

AirTAC is currently developing new products at the pace of 5 to 6 a year in line with market needs and outpacing customer needs to set a solid foundation for the Company in market competition. In the next ten years, the Company will focus on upgrading the level and precision of existing products and developing pneumatic products for application in high-tech industries in the efforts to develop more advanced products in terms of materials, technology and quality.

(2) R&D personnel and education background

Unit: persons

Year	2010	2011	2012 up to April 30
Education			
Master and higher	4	3	6
College	102	152	158
High school	122	111	151
Total	228	266	315

(3) R&D expenditure in the last five years

In TWD 1,000

Item	2007	2008	2009	2010	2011	2012 Q1
R&D expense	14,088	49,248	87,505	44,211	114,194	41,244
Net income	2,409,458	2,714,119	2,861,528	4,299,093	5,638,304	1,249,045
% of net income	0.58%	1.81%	3.06%	1.03%	2.03%	3.30%

Note: The R&D Center Expenses in 2010 was re-classified in order to match up with the financial statements for 2011.

(4) Successfully developed technologies or products in the past five years

Year	Part No.	Product
2007	KA0007	CDA/CLA072 Coil
	KA0008	CDA/CLA080 Coil
	KA0018	Buffering Mini Cylinder PBC
	KA0071	MI Series Cylinder
	KA0072	MF Series Cylinder
	KA0073	SCL/SUL Series Locking Cylinder
	KA0074	PB Series Cylinder
	KA0075	SIL Series Locking Cylinder
	KA0076	MIC Series
	KB0031	Hand Lever Valve 4HV
	KB0033	B Series
	KB0037	Pedaled Valve Series

Year	Part No.	Product
	KB0047	SR Series
	KC0026	Pad Printing Device Project
	KD0028	SI125X450-ST141
	KD0029	SI160X450-ST142
2008	KA0003	F.R.L Combination G600
	KA0004	Soft-Start Valve GV
	KA0005	Shut-Off Valve GZ
	KA0006	Tri-Rod Cylinder TCL/TCM
	KA0009	CDA/CLA092 Coil
	KA0010	CDA/CLA116 Coil
	KA0011	1/8"-1" Mini Two-Port Valve 2W/2S/2L
	KA0013	Compact Cylinder ACP
	KA0014	Standard Cylinder JSI
	KA0015	Mini Cylinder MAR
	KA0020	φ 6- φ 16 Needle Cylinder
	KA0021	φ 40- φ 63 Clamping Cylinder
	KA0022	φ 12- φ 63 Rotary Clamping Cylinder
	KA0025	1/8"-1"Interface High Pressure F.R.L Combination/FR.L Combination
	KA0034	Aluminum Tube Made in House
	KA0035	FTC-End Cap Trunnion Mounting
	KA0036	AD 200 Automatic Drainer
	KA0039	Floating/Fish Eye Joint Project
	KA0041	Air & Hydraulic Boosting Cylinder
	KA0042	Shuttle Valve
	KA0043	One-Way Valve
	KA0044	Quick Exhaust Valve
	KA0045	Stainless Steel Cylinder of American Measurement System
	KA0048	AAD 400 New Item
	KA0049	G100 F.R.L Combination
	KA0050	φ4-φ10
	KA0051	ISO 21287 Standard Cylinder
	KA0052	NFPA Cylinder of American Measurement System
	KA0055	Air & Hydraulic Damping Cylinder
	KA0056	Precision Guide Rail of Sliding Table
	KA0057*	CDA/CLA170 Coil (Invalid)
KA0060	CDA/CLA170 Coil	
KB0046	Old Two-Port Valve (2DV/2PV/2MV)	
KB0053	SC SI Accessories Improved from Old Version	

Year	Part No.	Product
	KB0065	Remodeled TN Double-Rod Cylinder
	KC0054	Anti-Skid Cap
	KD0057	FY213 C No-Standard Cylinder
	KD0059	Twist Clamping Cylinder C Non-Standard
2009	KA0001	Oil Buffer
	KA0012	φ 20- φ 80 Stopper Cylinder TWQ/TWG/TWH/TWM
	KA0016	φ 6- φ 32 Double-Rod Cylinder
	KA0017	Steel Tube Cylinder
	KA0019	φ 20- φ 100 Guide-Rod Cylinder
	KA0023	1/8"-1" Interface Low Pressure Regulator
	KA0024	1/8"-1" Interface Precision Regulator
	KA0027	Pneumatic Finger
	KA0030	Rotary Table of Swing Cylinder
	KA0032	Solenoid Valve 5SV210
	KA0040	Z8 EU Unusual-Shaped O-Ring
	KA0061	ISO Solenoid Valve
	KA0062	Twist Clamping Cylinder ACK
	KA0063	Two-Port Valve with Big Orifice Diameter
	KA0064	Stand Cylinder ESV
	KA0066	MV Series Mechanical Actuated Valve
	KA0077	BA Cylinder Development
	KA0079	Cylinder AU-SC
	KA0084	ACQ Lengthening Class 2 Cylinder
	KA0085	Drainer of Pagoda Shape
	KA0086	SGF Series Cylinder with Iron-End-Cap
	KA0087	AU2P025 Two-Port Valve
	KA0091	G Series Cut-Off Valve Structure
	KB0058	ACQ/ACP Series Cylinder Body Development
	KB0078	JV040 Cylinder Body Joint Remolding
	KB0080	SC Cylinder Improvement
	KB0082	MAL Cylinder Transformation
	KB0089	SI Series Cylinder Improvement
	KD0081	IR Ingersoll Non-Standard
	KD0088	Pneumatic Gripper AYFS32X37-HR121C
2010	KA0091	GA135 Reflux Valve
	KA0092	Guide-Rod Tight Cylinder TACQ Series
	KA0094	Precision Filter (Oil-Mist Separator)
	KA0095	Precision Filtering Regulator (Oil-Mist Separator)
	KB0096	G Series Improvement

Year	Part No.	Product
	KB0097	SR New Item
	KA0002	Precision Sliding Cylinder
	KA0098	Magnetic Coupling Rodless Cylinder
	KA0099	SDR Regulator
	KA0001	ACA/ACJ Series Oil Buffer
	KA0021	Auto Welding Clamping Cylinder
	KA0064	ISO15552 Standard Cylinder (SE Series)
2011	KA0022	QCK Series Swivel Clamping Cylinder
	KA0061	ESV Series Solenoid Valve
	KA0097	CM3 Series Mechanical Actuated Valve
	KA0098	RMS Series Magnetic Coupling Rodless Cylinder
	KA0090	2JS/2JW150/200/250/320 Angle Seat Valve
	KA0027	HFZ Pneumatic Gripper
	KA0100	HFY Pneumatic Gripper
	KA0030	HRQ Rotary Cylinder
	KA0039	Floating Joint
	KD0103	ZG-646E Hand Valve
2012 up to the date of annual report	KA0120	ZM3 Mechanical Valve
	KA0090	2JS/3JW400/500/600 Angle Valve
	KA0061	ESV/EAV600 ISO Valve
	KA0096	ASV Solenoid Valve
	KA0135	Fast Exhausting Valve, Duel Pressure Valve, Shuttle Valve
	KA0137	Direct-acting Tri-way Valve
	KA0139	15mm Pilot Valve
	KC0127	B05-MAL Machinery
	KB0098	Hand Lever Valve with Ceramic Spool
	KA0043	One-way Valve (NRV)
	KA0115	STW Slide-table Cylinder
	KA0146	HLQ Duel Axle Precision Slide-table Cylinder
	KA0144	HLM Compact Precision Slide-table Cylinder
	KA0106	Magnetic Coupling Tri-axle Cylinder
	KA0051	ACE Compact Cylinder
	KA0143	ACQ Compact Cylinder with Large Bore Size
	KA0110	Cylinder with Valve
	KA0112	Quick Connecting Coupling
	KA0141	Guided Cylinder
	KA0145	HLF Compact Precision Slide-table Cylinder
KA0138	Compact Rotary Cylinder	
KA0133	Pneumatic Actuator	

Year	Part No.	Product
	KA0099	SDR Regulating Valve
	KA0108	Standard Cylinder (SI/JSI/SE)

#### 4. Short and long-term development strategies and business plans

##### (1) Short-term development strategy and plan

###### (a) R&D strategy and plan

- ① Upgrade the performance of existing product series by improving various functions tailored to client's use habit and feedback.
- ② Develop more products for industries that have demands for pneumatic products.

###### (b) Marketing strategy and plan

- ① Proactively offer professional assistance to clients to help them improve the efficiency of their production equipment, and help them in production line planning and cost saving to win client appreciation.
- ② Vie for bigger market share with outstanding products and professional salespersons and create a win-win situation with clients, while achieving certain profit margin.

###### (c) Production strategy and plan

- ① Search for qualified and steady suppliers. As pneumatic components are constantly exposed to acidic or dirty gases when they work in an industrial environment and tend to break down easily, it is necessary to implement rigorous control at the source of production, i.e. selection of raw materials, to maintain the quality of components.
- ② Have a firm grip on costs and production efficiency and conduct onsite check regularly to ensure production optimization.

###### (d) Operating and financial strategy and plan

Improve management performance, stimulate employee potentials, and shore up the internal organization.

##### (2) Short-term development strategy and plan

###### (a) R&D strategy and plan

- ① Gear R&D towards the development of products for application in high-tech industries, and that are more compact, stable, and precise and have more complex mechanism. Upgrade from the current mid-end applications to applications in high-tech machinery and biotech machinery.
- ② Build up system integration capability to provide customers with software/hardware design, whole-plant design and consulting services.

###### (b) Marketing strategy and plan

- ① Cultivate international marketing personnel, build rapport with local customers, readily grasp market movement and discern the directions of product development.
- ② Establish a worldwide sales network and set up sales centers to extend the reach and brand awareness and recognition worldwide.

###### (c) Production strategy and plan

- ① Continue to search for qualified suppliers and build a long-term relationship with important suppliers to obtain reasonable prices and lower the costs of production.
- ② Pick a suitable location to build up industry cluster so as expand capacity.

(d) Operating and financial strategy and plan

- ① Promote the concept of internationalization and build the management capability of a multinational enterprise within the organization, and actively cultivate an internationalized workforce to strive towards the goal of becoming a multinational enterprise.
- ② Diversify the capital raising channels, strengthen the financial structure and group constitution.
- ③ Step up risk management and operate with the tenets of stability, high efficiency and agility.

5.1.2 Market, production and sales

1. Market analysis

(1) Revenue breakdown by region

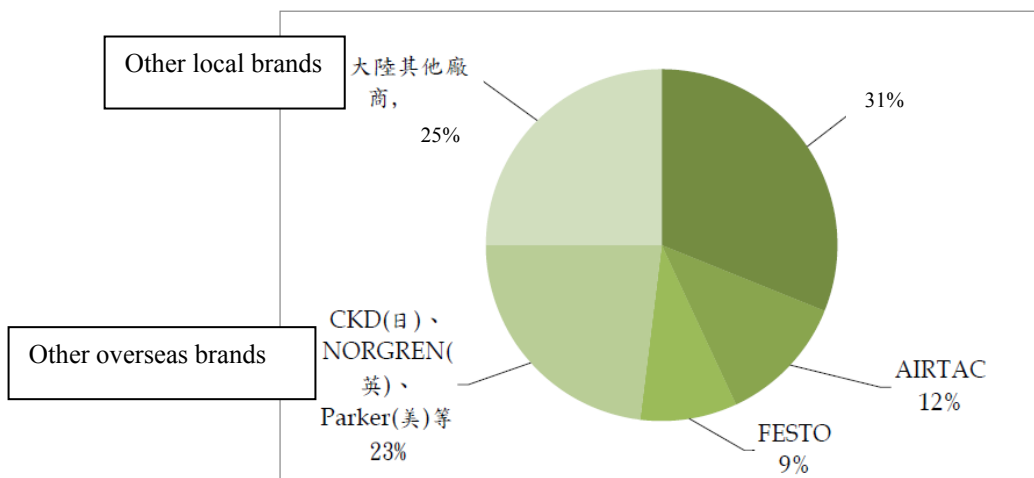
In TWD 1,000

Region	2010		2011	
	Amount	%	Amount	%
Greater China (Note)	4,072,978	94.72%	5,273,459	93.53%
Others	227,115	5.28%	364,845	6.47%
Total	4,299,093	100.00%	5,638,304	100.00%

Note: Including China and Taiwan

(2) Market share

2010 Market Shares of Brand Pneumatic Components in China



Source: AirTAC International Group

(3) Market supply and demand, and growth potential

## **A. Supply in pneumatic component market in the future**

The pneumatic products currently used in the industry are mainly with European and American brands, Japanese brands, and local brands among which AirTAC is a representative. SMC accounts for 31% of market share, ranking No. 1, followed by AirTAC, ranking No. 2 with 12% market share, and FESTO (Germany), ranking No. 3 with 9% market share. These three leading brands take up 52% of market in China. Other overseas brands combined, including CKD (Japan), Norgren (UK), and Packer (USA), account for 23% of market share. With the advantages of price, customized or convenient and readily available services, local manufacturers in China command 25% of market share.

As China's pneumatic market plays an increasingly significant role in the world market and the labor charge in Mainland China increases substantially, leading to the production automation and demands in the local market rise. In addition, with the booming economy in 2012 and price consideration, products made by local makers will account more market shares with the rising local market demand, and the brand awareness of the users is enhancing, such that the future market shares will be mostly accounted by leader brand products while the room for small companies will be reduced.

## **B. Demands in pneumatic component market in the future**

Pneumatic components produced by the Company are indispensable key components used by all kinds of automation equipment and special-purpose machinery/equipment. Given the extensive applications of pneumatic products in a wide range of industries, the growth of pneumatic component market is under the influence of the overall economic environment. Below is a description of the major downstream industries for pneumatic components, including machine tools, automotive manufacturing and semiconductor equipment.

### **① Overview of global machine tools industry:**

The data of Taiwan Machine Tool Foundation shows that the output value of global machine tool industry was US\$92,744,700,000, while the output value of China's machine tool industry was estimated at US\$27,680 million, growing 6,770 million from 2010, leading other major producing countries for three consecutive years, accounting 30% the former global output value. Over the same period, Japan's output increased US\$6,380 million, while Germany increased US\$4,000 million. As advanced nations gradually emerge from the impact of global financial crisis, the global output of machine tools in 2010 will edge up slightly. On the other hand, besides the demand growth from Japanese post-earthquake reconstruction, the domestic demands in China continue to expand, sales of machine tools in china have been going up eight years consecutively, sustaining high growth even when other major machine tool producing countries experienced only small growth. Thus in 2011, China remains the largest machine tool country in terms of consumption and

output.

The economic recovery in 2012 will begin in Asia. After China has been replacing Japan and Germany to become the world's largest machine tool producing country and market in 2009, its leader position is even more secure in 2010. According to the ITIS survey, China's machine tool output between 2011 and 2015 will reach US\$118.537 million, averaging US\$23.707 million a year, suggesting considerable room for growth from US\$20 billion million in 2010. The growth of the world machine tool industry is expected to focus in Asia and China.

2011 Estimated Output of Major Machine Tool Producing Countries (in USD 1 million)

2011 ranking	Country	2010	2011 (E)	Change (amount)	Change (%)
1	China	20,910	27,680	6,770	32%
2	Japan	11,971	18,353	6,382	53%
3	Germany	9,489	13,495	4,006	42%
4	Italy	5,018	6,233	1,215	24%
5	Korea	4,498	5,641	1,143	25%

Source: METAL WORKING Insiders' Report/Gardner Publications, Inc.

2011 Estimated Import of Major Machine Tool Importing Countries (in USD 1 million)

2011 ranking	Country	2010	2011 (E)	Change (amount)	Change (%)
1	China	9,420	13,070	3,650	39%
2	USA	2,533	4,325	1,792	71%
3	Germany	1,910	2,922	1,012	53%
4	India	1,285	1,804	519	40%
5	Korea	1,444	1,791	347	24%

Source: METAL WORKING Insiders' Report/Gardner Publications, Inc.

2011 Estimated Consumption of Major Machine Tool Consuming Countries (in USD 1 million)

2011 ranking	Country	2010	2011 (E)	Change (amount)	Change (%)
1	China	28,480	38,370	9,890	35
2	Japan	4,890	7,621	2,731	56
3	Germany	4,678	6,956	2,278	49
4	USA	4,313	6,612	2,299	53
5	Korea	4,264	5,131	867	20

Source: METAL WORKING Insiders' Report/Gardner Publications, Inc.

## ② Automotive industry

Experienced the recession in 2009 and rapid growth in 2010, the automotive industry regained the normal development level in 2011, and the emerging markets have outstanding performance among the major automotive markets. The statistic data from OICA shows that the global auto output in 2011 reached 80,090,000 cars, growing 3.2%, and the top five countries with the largest auto output are China, USA, Japan, Germany, and Korea, respectively.



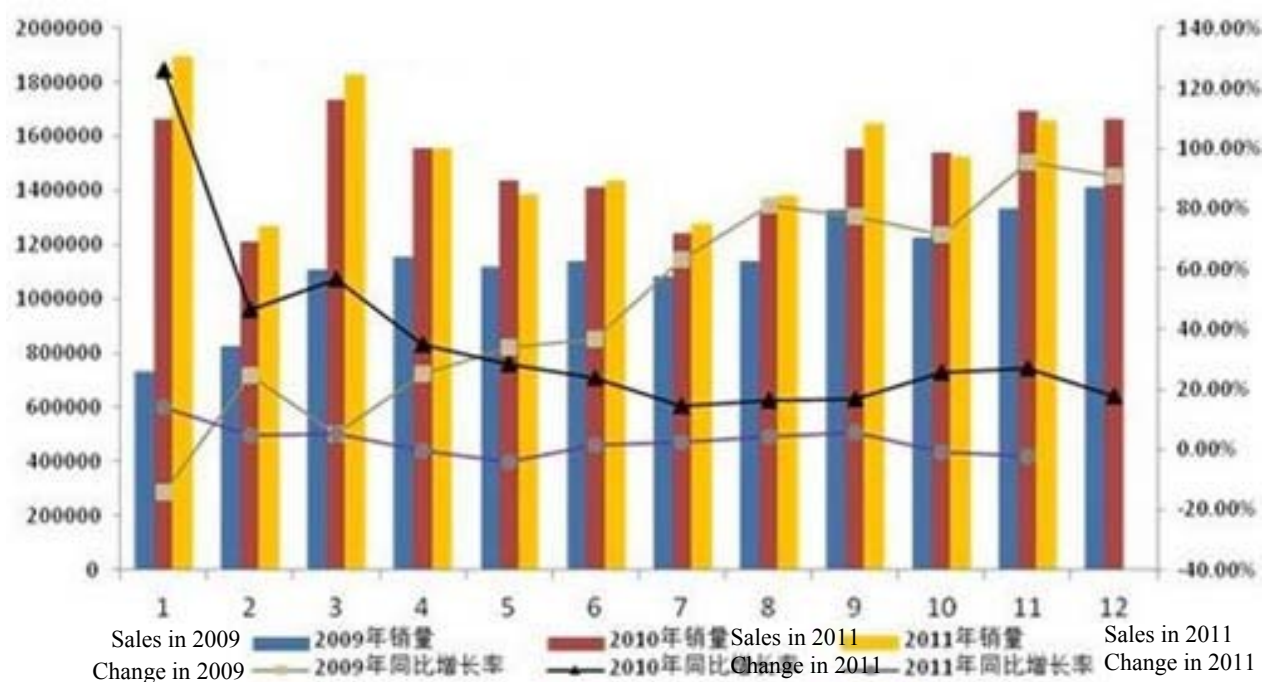
The market of Mainland China grew steadily in 2011, with rapid growth in exporting and a strong domestic demand in the auto market. According to the statistic data of CAAM, the auto output and total sale were 18,418,900 cars and 18,418,900 cars, with 0.84% and 2.45% growth, respectively, being the global largest new car market for three consecutive years. And the total amount of imports and exports of automotive commodities was US\$143,075 million, growing 31.83%, in which the recording amount of imports was US\$74,138 million, growing 30.77%, while the amount of exports was US\$68,937 million, growing 32.99%. Currently the car holding in Mainland China is still low, only accounting for 1/10 of developed countries like the USA and Japan. It is predicted that every hundred families of urban residents possess 50 cars in Chinese in the future, while the car consumption in the second-tier and third-tier cities (including counties) will contribute majorly for the continuous auto sale in Mainland China.

2011 Top Five Countries of Global Auto Output

Ranking	Country	2010		2011	
		Output	Change (%)	Output	Change (%)
1	China	18,264,667	32.4	18,418,876	0.8
2	USA	7,762,544	35.4	8,653,560	11.5
3	Japan	9,628,920	21.4	8,398,654	-12.8
4	Germany	5,905,985	13.4	6,311,318	6.9
5	Korea	4,271,741	21.6	4,657,094	9.0

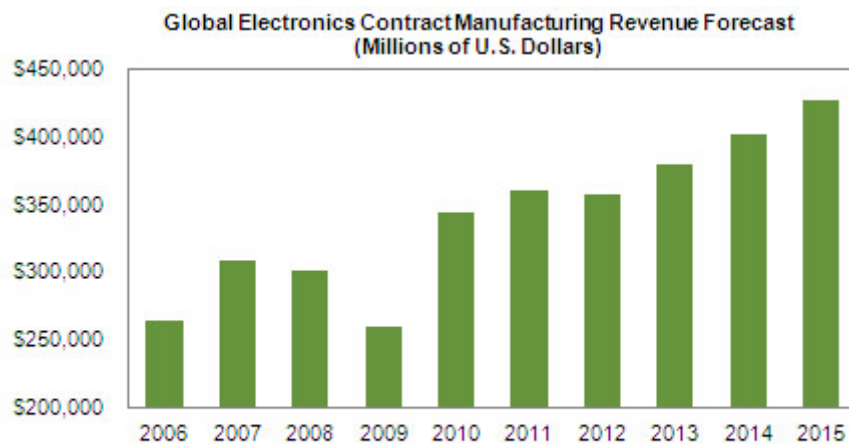
Source: OICA

2009-2011 Change of Monthly Auto Sales in China



### ③Contract manufacturing industry

Contract manufacturing is now an essential part of the electronics industry, accounting for 20.2 percent of all manufacturing revenue in 2011. The global electronics manufacturing business, consisting of electronics manufacturing services (EMS) and original design manufacturing (ODM) firms. As brands have increasingly outsourced production, the contract manufacturing industry has undergone enormous growth in recent years, with an astounding \$359.8 billion in revenue in 2011 rising from \$264.0 billion in 2006, according to the data from IHS iSuppli. The combination of a very strong first half last year together with the continuing economic uncertainty in Europe and the United States will serve to severely constrict growth prospects for the overall global contract manufacturing space in 2012. But the industry continue its expansion trajectory in the coming years, with revenue expanding to \$426.1 billion in 2015.



Source: IHS iSuppli Research April 2012

China has already accounts for more than half of the contract manufacturing industry's aggregate revenues, and expected to maintain high growth in 2012. In addition, China has grown to be the world's largest consumption market of smart phones and PCs—some of the end products it helps produce so China's pace of growth in those markets will determine how quickly those areas expand.

The smart phones, as an example, have been developing rapidly in the world in resent two years. The shipping volume of smart phones was 144.9 million pieces in

2011, growing 42.5% as compared to 101.7 million pieces in 2010. Currently, the sales of smart phones account for 36% of the global cell phones, in which the market share of Samsung and Apple exceeds 50%.

The sales of smart phones in China surpass the USA for consecutive two quarters since the latter half of 2011. And China will replace the USA to be the largest market of smart phones shipping in 2012.

2011.2012 (E) Market Share and Ranking of Smart Phones

Country	2011 Market Share	2011 Ranking	2012 (E) Market Share	2012 Ranking	2016 Market Share	2016 (E) Ranking
China	18%	2	20.6%	1	20.2%	1
USA	21.3%	1	20.7%	2	15.3%	2
India	2.2%	9	2.9%	7	9.3%	3
Brazil	1.8%	11	2.3%	10	4.7%	4
UK	5.3%	4	4.5%	4	3.7%	5

Source: IDC

To sum up, markets for the main products of the Company have sizable demands from the perspectives of machine tools industry, automotive industry or electronic equipment industry. In addition, as the global economy gradually emerges from financial crisis in 2011, industrial demands rise sharply and the output of leading countries grows. The overall pneumatic component industry will see increase in output as well, while the China market brings the greatest expectation. Looking into the future, the pneumatic component market in China will see sustained growth in terms of sales and world market share.

#### (4) Competitive edge

##### A. Brandname and customer recognition

The brandname “AirTAC” is composed of a few elements; “Air” means air-driven products; “T” means the Company’s products are “technological” that are key components for use in mechanical industry, meaning the Company is in “Technology Industry”; “A” denotes “Automatic”, meaning pneumatic components are an indispensable part of automation industry and machine production; “C” means

“Components.” This brandname clearly embodies the features of the Company products, the industries that use the products and their applications. “亚德客 AirTAC” is now accredited as a well-known trademark of China, which can protect the AirTAC brand from infringement nationwide. In addition, because of the brand awareness and product breadth AirTAC enjoys in China, its products are now the industry standards in the local markets.

By sales, the “AirTAC” is now the second brand in China’s pneumatic component market. This is quite an achievement for an industrial product and a manufacturer. Now AirTAC is ready to move on into the world market to introduce the brand AirTAC to worldwide customers of pneumatic components.

#### B. Vertical product integration to meet the one-stop shopping needs of customers

The Company now offers vertical integration services from R&D, design, metal forming, injection molding, processing of other metal parts, assembly, and installation, coupled with complete and elaborate lab testing to ensure the stability of product quality and expand production to achieve economy of scale, thereby reducing the unit cost of production. The vertical integration capabilities also enable the Company to effectively address the needs of different industries and clients, have fast reaction and greater flexibility in product design to let clients feel that their needs are fully understood, expand the application markets, and meet the one-stop shopping needs of downstream customers.

#### C. Global logistics capability

The overall pneumatic component industry is expected to grow at a steady pace in the future. But the sheer number of players on the market has intensified the price competition. As the downstream application markets continue to expand, the Company has established three production bases in Taiwan and China with the aims to achieve product diversification, mass production, lower costs and meet customer needs. The Company has also set up sales headquarters in China, Europe, and Southeast Asia to use the production resources more effectively and extend the sales network. The Company’s global logistics capability and sound ERP system (Enterprise Resource Planning) make the best allocation of enterprise resources, effectively reduce costs, shorten the delivery time, and provide important reference data in strategy setting. The ERP system has become an important advantage for the Company in global market competition.

#### D. Strong and market-sensitive R&D capability

The Company spends 3 ~ 4% of its revenue on R&D. Aside from product

innovation, the R&D knowhow also enables modification of custom-made products, rendering the Company highly competitive in R&D quality and flexibility.

The Company owns comprehensive and trendy process technologies and product lines. With respect to pneumatic control components, the Company offers solenoid valves, pneumatic control valves, two-way valves and other valves. With respect to air preparation units, the Company offers many kinds of two-point combination, F.R.L. combination and filters. With respect to actuator, the Company offers standard cylinders, miniature cylinders, compact cylinders, and ultra-thin cylinders, which are all developed for different industries and tailored to different customer needs. The Company also develops products based on customer feedback and research on future industry trends to expand the product lines to high-end applications, such as semiconductor equipment, medical equipment, and biotech equipment, and onto whole-plant design to become a total solution provider.

#### E. Complete sales network

The Company has a complete sales network in China. Led by the subsidiary AirTAC (China) Co., Ltd., the Company has branch offices, representative offices and distributors throughout the urban and rural areas of China. Now the Company has 55 branch offices, 7 representative offices and more than 4800 distributors. Because the Company's clients are spread in different industries and areas, an extensive sales network gives customers quick access to AirTAC products. The Company also has more than 100 distributors in Europe, USA and Asia that allow AirTAC products to make headway into the world markets.

#### F. Comprehensive after-sale service system

The Company provides not just products, but also a complete set of services. Starting from first approaching a client, the Company helps the client make the most of their existing production resources and establish improvement plan to help them save costs. Technical supports and services available to clients include production line upgrade, implementation of automation items, maintenance and repair, as well as installation, testing, planning and project design to create maximum value beyond the pneumatic products. In after-sale service, the Company offers joint warranty. That is, a buyer of a Company product from any distributor in China is entitled to receive technical services from any branch office of AirTAC in China. The Company also guarantees that a customer will receive service in 24 hours after making a request for service. This way, customers are ensured quality services and the Company will gain customer trust in the long run.

## (5) Favorable and unfavorable factors for long-term growth and response strategy

### A. Favorable factors

- ① Robust market development and market growth in China bring business opportunities

The Chinese government mentions in the 12<sup>th</sup> Five-Year Plan that begins in 2011 that China will create industry clusters and build advanced manufacturing bases with international competitiveness, and in boosting technological reform, formulate technological upgrade policy, accelerate the application of new technologies, new processes and new equipment to upgrade the traditional industries, accelerate the phaseout of backward processes and equipment to enhance the overall efficiency of energy use. When the 12<sup>th</sup> Five-Year Plan is in full force, relevant policies on structural optimization and adjustment of manufacturing industry and related mechanical parts and components will be rolled out and forecast the tremendous demands for pneumatic components.

- ② Extensive applications of product render the Company business less vulnerable to economic cycle

Pneumatic components are extensively applied in a variety of industries, from machine tools, semiconductor, automotive, daily necessities to construction and textile as key components in automated processes. Due to the dispersion of industrial applications, except for the systemic risk of economic recession, pneumatic component industry is less likely to expose to the risk where multiple industries hit bottom at the same time. As such, pneumatic components could always find buyers and the industry as a whole does not experience distinct high or low season, or face the risk of industry concentration risk. Moreover, as the China markets grow, all kinds of industries grow along which will boost the demands for pneumatic products.

- ③ The emergence of green industry boosts demands for pneumatic components

Countries around the world are paying more and more attention on environment protection amidst the increasingly serious phenomenon of global warming. While governments put more control on waste and pollution generated in production, manufacturers are looking for more environmental friendly and efficient production mode. Pneumatic components are all air-driven, unlike hydraulic systems that are oil driven, consume considerable energy and generate pollution. Hence pneumatic components are the best choice in industrial settings in the wake of heightened environmental awareness.

- ④ Wage hike in China propel industries to increase the automation in processes

Businesses in China experienced sharply rising wages, and some manufacturers move plant facilities to the western part of China or transfer business to Southeast Asian countries. But more companies decide to stay where they are and at the same time upgrade to automated process to replace labor-intensive plant operations in order to reduce manpower requirement and improve product quality stability. Automated process equipment needs many pneumatic components. The trend of automation becomes the force driving the Company's business growth.

- ⑤ The slowdown of global economy leads to reasonable demands from manufacturers.

The development of global economy is decelerating from 2011; the European debt crisis continues and the economy of Euro zone will come to recession. But according to the measures has been unveiled or is unveiling in Europe, the European debt crisis runs into a new turning point and the situation of causing serious global economic recession may be avoided. The change of economic situation leads to a reasonable purchase selection of automatic components by most manufacturers. That is to say, the manufacturers prefer pneumatic components with high quality and effective costs, which is a marketing advantage of the Company as compared to major rival enterprises.

#### B. Unfavorable factors and response strategy

- ① Great volatility of material prices on the international market and supply-demand imbalance pose greater challenges to raw material inventory management and cost control

Aluminum, cooper and steel are the main raw materials for Company's products. As revenues grow, the consumption of raw materials would also increase sharply. As demands for energy and raw materials are expected to rise, the prices of raw materials continue to climb. The volatility in raw material prices makes it difficult for manufacturers to grasp their costs and delivery date from 2011. Thus raw materials and cost control are big challenges to the Company at the present time.

##### Response strategy

- ① Externally forge long-term rapport with upstream suppliers to mitigate the impact of price volatility in raw materials; internally designate the material management and procurement unit of the parent company to carry out price management for the Group's procurement operation to get a better grip of the material price trends and make immediate response in times of steep price volatility.
- ② Strengthen cost control capability and use vertically integrated production

operation to better control the product cost and enhance competitiveness, and keep the impact of material price volatility on cost instability to the minimum.

- ② Counterfeit goods are becoming increasingly prevalent in the China market. Cheaper price copycats of brand products render brand operation more difficult

Although China's economy continues to grow and the markets expand, many small manufacturers would imitate the products or even the logo of large and well-known manufacturers and sell their copycats in the market at a much lower price, while giving buyers the impression that they were purchasing the brandname products. But the poor or unstable quality of those copyrights often leads to product breakdown or consumer dispute, which at times causes problem for brand manufacturers. Because such phenomenon is rather common in the China markets, it poses certain obstacle to brand manufacturers in operations.

#### Response strategy

- ① The Company has registered the brand “亚德客 AirTAC” in the local markets in China and has been accredited as a well-know trademark of China on April 27, 2012. Nobody else may register the “亚德客 AirTAC” trademark. The Company also adopts a defensive trademark strategy by registering similar trademarks in advance to prevent rivals from using similar trademark to confuse or mislead consumers.
- ② The Company engages local attorneys and own distribution system to crack down counterfeits. The Company would collect evidence against individuals and stores that sell counterfeits and forward the evidence to local law enforcement for further actions. The actions of the Company are to let merchants realize that selling counterfeit products are subject to penalty and to derail the distribution of counterfeits, thereby achieving the purpose of reducing the sources of counterfeited products.
- ③ Wage hike in China boosts the production costs

Worker wages have been rising in China. According to the “Plan of Employment Promotion (2011-2015)” unveiled in 2012, the standardized average annual growth rate of minimum wage during the period of the Eleventh Five-Year Plan is 12.5% . The minimum wage will increase by 1.84 times up to the termination of the Twelfth Five-Year Plan in 2015, even though it is calculated according to aforementioned proportion of 13%. It can be foreseen that the wage hike in Mainland China in the future will continue to accelerate.



### Response strategy

The Company's R&D department and production line work together to improve the process technology and cut down the waste of raw materials and improve the process so as to reduce the man hours, improve production efficiency and lower costs. The Company also increases the automation ratio, using automated machinery in place of manual labor to render product quality more stable and reduce labor cost.

- ④ Renminbi exchange rate against the dollar exhibits a long-term upward trend. The imports of machinery products will continue to grow at a high pace, while the export competitiveness of mid- to low-end machinery products will be further diminished, which is evidenced by the sharp decline in trade surplus for mechanical industry in 2011. The growth of mechanical industry is expected to be suppressed in 2012.

### Response strategy

Nearly 90% of the Company purchase and sale take place in China. The Group also uses RMB as functional currency and accounting currency, and thereby has limited exposure to Renminbi exchange rate fluctuation. The Company's consolidated export revenue accounts for approximately 7% of the consolidated revenue. In addition, the Company will watch the exchange rate variation closely and hedge the risk if necessary.

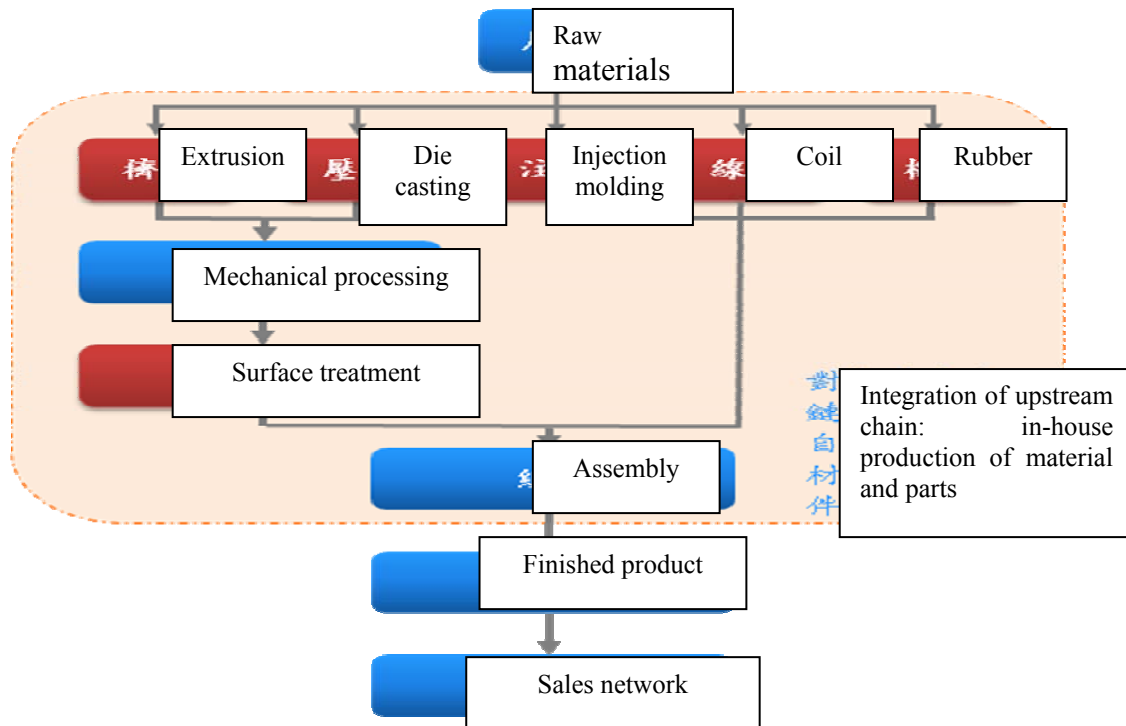
## 2. Usage and manufacturing processes of main products

### (1) Usage of main products

- A. Actuator (cylinder): Cylinder is an actuator component of a pneumatic system. An air cylinder typically comprises a cylinder body, top and bottom lid, piston, piston rod, sealing and fastening pieces. Through the push of compressed air, the piston rod in the cylinder is extended or pulled back, which, in coordination with the mechanical design, can operate a mechanical arm, platform lift or brake, and can be applied in staple gun, drill, stamping machine and other tools.
- B. Control component (valve): In the pneumatic system, valves are airflow control components and the basic components in the operation of pneumatic system. This component blocks the flow of fluid to achieve pressure, direction or flow control. By function, there are pressure control valve, directional control valve and flow control valve. Valve control could be driven manually, electrically, or by fluid or air. Valves would act under pressure, temperature or other forms of sensing signals in a predetermined fashion or to carry out the simple action "switch on" and "switch off", thereby changing the area of flow channel and achieving the purpose of control. Valves are used to form the switches for a pneumatic loop to control the speed of movement and control multiple sets of pneumatic systems.

C. Air preparation unit: Before air is transmitted to the equipment, it must pass through an air filter to remove moisture and impurities in it. A pressure regulator is then used to adjust the pressure in the pipeline. Finally a lubricator sprays oil mist into the pipe to mix with the air for lubrication purpose. The filtering, regulating and lubricating parts combined are called an air preparation unit that can increase the accuracy of air pressure and the service life of pipelines.

**(2) Manufacturing processes of main products**



**3. Suppliers of main materials**

Main material	Supplier	Status of supply
Aluminum	Yuan Tai, Chiho-Tiande, Cheng Da Hydraulic	Good
Medium carbon steel	Huang Ming	Good
Brass	Jintian Copper Tube	Good

**4. Major clientele**

(1) Names of suppliers who accounted for more than 10% of the purchase by the Company in the last two years, the amount of purchase to total purchase, and reasons for changes in purchase percentage

Rank	2010				2011				2012 Q1			
	Name of supplier	Amount	% of net purchase	Relationship with AirTAC	Name of supplier	Amount	% of net purchase	Relationship with AirTAC	Name of supplier	Amount	% of net purchase in the year up to the previous quarter	Relationship with AirTAC
1	Yuan Tai	138,760	9.70%	None	Yuan Tai	175,413	9.40%	None	Yuan Tai	48,095	13.57%	None
2	Chiho-Tiande	98,702	6.90%	None	Chiho-Tiande	155,441	8.33%	None	Ningbo Hengxing	16,113	4.55%	None
3	Wuxi Chengda	44,454	3.11%	None	Ningbo Hengxing	84,288	4.52%	None	Ningbo Jintian	13,940	3.93%	None
4	Ningbo Jintian	34,792	2.43%	None	Yuanlifu	59,882	3.21%	None	Chiho-Tiande	13,753	3.88%	None
5	Shanghai Banye	32,093	2.25%	None	Wuxi Chengda	53,719	2.88%	None	Yuanlifu	11,159	3.15%	None
6	Yili Sule	27,143	1.90%	None	Ningbo Jintian	51,392	2.75%	None	Wuxi Chengda	8,997	2.54%	None
7	Foshan Jin Yin	25,581	1.79%	None	Yili Sule	39,629	2.12%	None	Yili Sule	8,358	2.36%	None
8	Kunshan Dazhan	25,451	1.78%	None	Zhoushan Putuo	33,067	1.77%	None	Yiqiu Metals	8,200	2.31%	None
9	Zhoushan Putuo	25,184	1.76%	None	Dongguan Ruian	26,672	1.43%	None	Fulong Chrome Plating	8,049	2.27%	None
10	Gaodin Precision	23,933	1.67%	None	Gaodin Precision	25,876	1.39%	None	Zhoushan Putuo	7,684	2.17%	None
	Others	953,874	66.71%		Others	1,160,625	62.20%		Others	210,117	59.27%	
	Net purchase	1,429,967	100%		Net purchase	1,866,004	100%		Net purchase	354,465	100%	

Change analysis: Purchase from Yuan Tai in 2012 Q1 increased over the previous period and accounted for more than 10% of total purchase. It was mainly because Yuan Tai is an aluminum metal supplier. As the Company continues to improve its production technology and gradually increases the in-house production rate, the Company switched part of purchase of aluminum processed workpieces to the purchase of raw material aluminum for in-house production. As a result, the purchase of aluminum increased over the previous period.

(2) Names of customers who accounted for more than 10% of the sales in the last two years, and the amount of sales to total sales and reason for changes in sales percentage

Rank	2010				2011				2012 Q1			
	Name of customer	Amount	% of net sales	Relationship with AirTAC	Name of customer	Amount	% of net sales	Relationship with AirTAC	Name of customer	Amount	% of net sales in the year up to the previous quarter	Relationship with AirTAC
1	Jin Hua Jiulong	115,637	2.69%	None	Changsha Sanyi	75,381	1.34%	None	MFD	14,646	1.17%	None
2	Changsha Sanyi	70,967	1.65%	None	Changsha Shenhong	53,132	0.94%	None	Qiangjin	10,369	0.83%	None
3	Changsha Shenhong	35,265	0.82%	None	Qiangjin	38,681	0.68%	None	Changsha Shenhong	7,950	0.64%	None
4	Qiangjin	35,170	0.82%	None	Tianya	33,467	0.68%	None	P.U.M.A.	7,472	0.60%	None
5	Tianya	29,301	0.68%	None	Yiya	33,205	0.59%	None	Suzhou Keli	6,540	0.52%	None
6	Shanke Automation	23,606	0.55%	None	P&H	31,346	0.59%	None	Yuanlifu	6,364	0.51%	None
7	Anderson Industrial	20,669	0.48%	None	Yuanlifu	27,962	0.55%	None	HID-TEK	6,262	0.50%	None
8	Yuanlifu	20,135	0.47%	None	Shenzhen Shouxin	26,253	0.49%	None	Onjetong	6,196	0.50%	None
9	Kun Ya	19,890	0.46%	None	Anderson Industrial	25,872	0.46%	None	Shanghai Hengrun	5,585	0.45%	None
10	Changsha Zoomlion	19,870	0.46%	None	Shanghai Jingpu	23,952	0.46%	None	Jianyang Yeheng	5,429	0.43%	None
	Others	3,908,583	90.92%		Others	5,269,053	93.22%		Others	1,172,233	93.85%	
	Net sales	4,299,093	100%		Net sales	5,638,304	100%		Net sales	1,249,045	100%	

The Company did not have customers who accounted for more than 10% of the sales in the last two years.

#### 5. Production quantity and value in the last two years

Unit: TWD 1,000; 1,000 units

Production Main products	2010		2011			
	Capacity	Output quantity	Output value	Capacity	Output quantity	Output value
Pneumatic control component	5,863	5,541	743,703	6,958	6,022	933,769
Pneumatic actuator	3,509	3,367	767,798	4,436	3,721	1,180,304
Air preparation unit	1,806	1,514	218,582	2,254	1,792	307,709
Others	Note	Note	131,333	Note	Note	180,890
Total			1,861,416			2,602,672

Note: The other products are miscellaneous items that have different units for inventory purpose and hence cannot be compared.

Change analysis: The capacity, output quantity and output value of main products in 2011 all grew significantly over 2010, mainly because under the policy of rising standard employee wage and benefits, the automation in production was accelerated and demands for pneumatic products rose sharply. In addition, the Group has been able to develop new customers on the basis of existing clientele to increase the market share. Thus the Company expanded the capacity for main products in response to the anticipated demands.

## 6. Sales volume/revenue in the last two years

Unit: TWD 1,000; 1,000 units

Sales Main product	Year	2010				2011			
		Domestic sale		Export sale		Domestic sale		Export sale	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Pneumatic control component		4,474	1,235,301	339	83,396	5,071	1,564,597	550	140,651
Pneumatic actuator		2,891	1,637,121	127	54,660	3,256	2,130,642	229	127,436
Air preparation unit		1,297	399,130	142	40,441	1,451	496,764	248	79,913
Others		15,751	800,426	651	48,618	17,309	1,081,457	7,066	16,846
Total		24,413	4,071,78	1,259	227, 115	27,087	5,273,457	8,093	364,846

Note: Export sale means sales to areas outside Greater China.

Change analysis: The sales quantity and value of main products in 2011 all grew significantly over 2010, mainly because under the impact of economic stimulus plans of the Chinese government and continuous raising the minimum wage, demands for pneumatic products from the construction machinery, automotive, new energy, and rail track industries all rose sharply. In addition, the Group has been able to develop new customers on the basis of existing clientele because of the stable growth of production quantity and value.

### 5.1.3 Employees

Unit: persons; %

Year		2010	2011	2012 up to the date of annual report
Number of employees	Manager and higher	75	85	107
	Staff	1,115	1,394	1,454
	Production line worker	1,429	1,469	1,534
	Total	2,619	2,948	3,095
Average age		27.15	27.52	27.45
Average years of service		3.32	3.83	3.59
Education background (%)	Ph.D.	-	-	-
	Master	0.73	0.54	0.78
	University/College	26.61	31.72	32.86
	High school	42.61	36.50	43.36
	Below high school	30.05	31.24	22.97

### 5.1.4 Environmental expenditure

Total losses (including damage awards) and fines for environmental pollution for the two most recent fiscal years, and during the current fiscal year up to the date of annual report, response strategies (including corrective measures) and possible disbursements to be made in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt responsive measures, or if it is not possible to provide such an estimate, an explanation of the reason why it is not possible): None.

### 5.1.5 Labor relations

1. Employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interests

#### (1) Employee benefit plans

The Company pays its employees higher than industry average salary, as well as year-end bonus, quarterly performance bonus and all kinds of allowances and subsidies. The Company also arranges free physical examination at designated institutions and purchases insurances for employees, including basic pension, medical, work injury, maternity and unemployment, and provide them with subsidies for wedding, death, childbirth and hospitalization, and group travel. The Company also holds cultural, art and sports activities to foster a sense of affinity among employees and enhance work efficiency.

#### (2) Continuing education and training

Education and training aids the Company to grow and develop. Systematic, scientific and reasonable training hone the professional skills of employees and help develop their intelligence, potential and vigor to the maximum that will benefit the sustained operation of the Group. The Company provides a series of training courses tailored to the needs of employees, including recruitment training, on-the-job training and professional skill training.

### (3) Retirement system and state of implementation

The Company's subsidiary registered in the Republic of China has established employee retirement plan in accordance with the Labor Standards Act of the ROC. Under the old system, the Company sets aside 2% of total salary paid as pension reserve and deposits it into a Labor Pension Fund Supervisory Committee account every month. Starting July 1, 2005 along with the implementation of a new pension system under the Labor Pension Act (referred to as the "new system" or "defined contribution plan" hereunder), employees who were subject to the Basic Standards Act may choose to switch to the new system and employees who report to work after the implementation of the new system will be subject to the defined contribution plan. Under the plan, the Company will contribute 6% of an employee's monthly wages into his or her personal labor pension fund account. Subsidiaries outside the Republic of China have in addition early retirement scheme in place and pay early retirement benefit to departing employees who have worked for at least three years. The early retirement benefit is calculated according to the following rules:

Early retirement benefit = monthly salary for early retirement purpose x number of eligible months

Monthly salary for early retirement purpose is an employee's average base salary in the past three years + average fixed overtime pay

Number of eligible months = base months + adjustable months x performance coefficient

Company's subsidiaries in China will pay for the pension insurance of employees in accordance with the local regulations. Pension insurance in China is part of the social insurance, which cover medical, maternity, pension, work injury, and unemployment benefits. Once the Company enrolls a new employee in the social insurance program, the Company starts to make pension contribution on his or her behalf. The contribution rate, standards and disbursement of pension benefit are as follows:

● Ningbo AirTAC Automatic Industrial Co., Ltd.

Pension insurance	Local resident (with Ningbo registered residence)		Non-resident (without Ningbo registered residence)	
	Employee	Employer	Employee	Employer
Contribution rate	8%	12%	8%	13%
Contribution base	Average monthly salary of		Average monthly salary of employee	

Pension insurance	Local resident (with Ningbo registered residence)		Non-resident (without Ningbo registered residence)	
	Employee	Employer	Employee	Employer
	employee in the last year		in the last year	

● Guangdong AirTAC Automatic Industrial Co., Ltd.

Pension insurance	Local resident (with Guangzhou registered residence)		Non-resident (without Guangzhou registered residence)	
	Employee	Employer	Employee	Employer
Contribution rate	8%	20%	8%	12%
Contribution base	Average monthly salary of employee in the last year		Average monthly salary of employee in the last year	

● Jianliang (Shanghai) Trading Co., Ltd.

Pension insurance	Shanghai city resident (with registered residence) / outside workers (under 45 years old with town registered residence)		Outside workers (over 45 years old with town/non-town registered residence)	
	Employee	Employer	Employee	Employer
Contribution rate	8%	22%	0%	12.5%
Contribution base	Employee's average monthly wages income in the past year (including bonus, subsidy and allowance)		City-wide average monthly wage in the past year (average wage in Shanghai City in the past year)	

● AirTAC (China) Co., Ltd.

Pension insurance	Local resident (with Ningbo registered residence)		Non-resident (without Ningbo registered residence)	
	Employee	Employer	Employee	Employer
Contribution rate	8%	20%	8%	12%
Contribution base	Average monthly salary of employee in the last year		Average monthly salary of employee in the last year	

2. Loss sustained as a result of labor disputes in the most recent fiscal year, and during the current fiscal year up to the date of annual report, an estimate of losses incurred to date or likely to be incurred in the future, and mitigation measures being or to be taken; if the loss cannot be reasonably estimated, a statement to that effect.

The Company has been maintaining a harmonious relationship with its employees and did not sustain any loss resulting from labor dispute. Moreover, the Company does not expect to sustain loss resulting from labor dispute in the coming year.

### 5.1.6 Major contracts

#### 1. AirTAC International Group



Nature of contract	Counterparty	Date of contract	Content	Covenant
Loan	Ningbo AirTAC	2011.09.08 ~ 2012.09.07	The Company loans USD 10 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 15,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2011.11.18 ~ 2012.11.17	The Company loans USD 4.5 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 7,300 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.01.11 ~ 2013.01.10	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.03.12 ~ 2013.03.11	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8,330 (after tax). Ningbo AirTAC should give the Company a one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None

## 2. Ningbo AirTAC

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	Ningbo Bank, Fenghua Branch	2010.06.08 ~ 2012.09.28	Ningbo AirTAC obtains a loan of RMB 35 million for purchase of materials at the rate of 4.725%/mo.	None
Loan	The Company	2011.09.08 ~ 2012.09.07	The Company loans USD 10 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 15,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The company	2011.11.18 ~ 2012.11.17	The Company loans USD 4.50 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 7,300 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2012.01.11 ~ 2013.01.10	The Company loans USD 4.90 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly	None

Nature of contract	Counterparty	Term of contract	Content	Covenant
			interest payment is approximately USD 8.000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	
Loan	The Company	2012.03.12 ~ 2013.03.11	The Company loans USD 4.90 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8.330 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Mortgage	Ningbo Bank, Fenghua Branch	2007.09.29~ 2012.09.28	Ningbo AirTAC provides the ownership of a house with house ownership certificate Feng-Hua-Shi-Zi-#01-76875 as collateral for a line of credit up to RMB 49 million from Ningbo Bank, Fenghua Branch between 2007.09.29 ~ 2012.09.28.	None
Construction	Ningbo Yuan Shen Construction Co.	2010.10.20 ~ 2011.08.20	Plant construction project No. 19 with total contract price of RMB 19 million.	None
Construction	Ningbo Yuan Shen Construction Co.	2011. 07.30 ~ 2012.08.01	Plant construction project No. 19 with total contract price of RMB 27.50 million.	None

### 3. Guangdong AirTAC

Nature of contract	Counterparty	Date of contract	Content	Covenant
Construction	Hunan Hongyuan Electricity Construction Co., Ltd.	2011.06 ~ 2012.02	Hunan Hongyuan Electricity Construction Co., Ltd. is awarded the contract to engineer air conditioning and illumination within the plant area of Guangdong AirTAC at Foshan Nanhai Zone at a total price of RMB 11.78 million.	None
Construction	Hunan Chuanggao Construction Co., Ltd.	2011.11.30	Hunan Chuanggao Construction Co., Ltd. is awarded the contract to build the floor, ceiling, facing and epoxy engineering within the plant area of plant compound of Guangdong AirTAC at Foshan Nanhai Zone at a total price of RMB 11 million.	None
Construction	Guangdong Wan Yuan Construction Co., Ltd.	2010.09 ~ 2011.08	Guangdong Wan Yuan Construction is awarded the contract to build the guard's room, roads, firefighting facilities, water supply and drainage, and power supply within the walls of plant compound of Guangdong AirTAC at Foshan Nanhai Zone at a total price of RMB 27 million.	None

### 4. Jianliang (Shanghai)

Nature of contract	Counterparty	Contract date	Content	Covenant
Real estate transaction	Yangzhou City Tai Da Investment Enterprise Co.	2011.02.18	Total price of transaction is RMB 5,020,000.	None
Real estate transaction	Shanghai Wan Ju De Enterprise Co.	2011.02.18	Total price of transaction is RMB 8,473,956.	None
Real estate transaction	Xiamen Jin Guo Ji Land Development Co.	2011.03.13	Total price of transaction is RMB 4,780,754.	None
Real estate transaction	Shandong Jin Ao Electronic Technology Co.	2011.03.24	Total price of transaction is RMB 2,331,636.	None
Real estate transaction	Shandong Jin Ao Electronic Technology Co.	2011.04.06	Total price of transaction is RMB 2,428,960.	None
Real estate transaction	Chengdu Shun Tong Enterprise Co.	2011.04.19	Total price of transaction is RMB 5,286,400.	None
Product distribution	Shanghai Jun Tai Automation Equipment Co.	2012.01.01 ~ 2012.12.31	Shanghai Jun Tai Automation Equipment Co. will be a distributor of AirTAC products in Shanghai area.	None
Product sales	Hunan San Yi Lu Mian Machinery Co.	2012.01.01 ~ 2012.12.31	The parties sign a 2012 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement (actual shipment is agreed on in a separate agreement)	None
Product distribution	Shanghai Shanke Automation Equipment Co.	2012.01.01 ~ 2012.12.31	Shanghai Shanke Automation Equipment will be a distributor of AirTAC products and accessories in Shanghai area.	None
Product distribution	Tianjin AirTAC Automation Equipment Co.	2012.01.01 ~ 2012.12.31	Tianjin AirTAC Automation Equipment will be a distributor of AirTAC products and accessories in Tianjin area.	Addendum
Product distribution	Jinan Yuanlifu Trading Co.	2012.01.01 ~ 2012.12.31	Jinan Yuanlifu Trading will be a distributor of AirTAC products and accessories in Jinan area.	Addendum
Product sales	Changsha Shenhong Machinery Co.	2012.01.01 ~ 2012.12.31	The parties sign a 2012 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement.	None
Product Sales	Shanghai Hirain Technologies Corporation	2012.02.22 ~ 2013.02.21	The parties sign a sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement.	None
Product Sales	Zoomlion Heavy Industry	2012.01.01 ~ 2012.12.31	The parties sign a 2012 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement. (actual shipment is agreed on in a separate agreement)	None
Purchase	Fenghua Jin	2011.01.01 ~	The parties sign a 2011 sales agreement	None

Nature of contract	Counterparty	Contract date	Content	Covenant
agreement	Rong Pneumatic Complete Factory	2011.12.31	involving gas controlled cabinets, valves and accessories, where sale will be settled according to tax-included unit price and the terms of the agreement.	
Purchase agreement	Mudanjiang Si Fang Hydraulic Machinery Co.	2011.01.01 ~ 2011.12.31	The parties sign a 2011 sales agreement involving hydraulic products, where sale will be settled according to tax-included unit price and the terms of the agreement.	None

#### 5. AirTAC Taiwan

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	Taiwan Cooperative Bank	A loan agreement signed on May 27, 2010	The Bank provides TWD 400,000,000 line of credit.	None
Mortgage	Taiwan Cooperative Bank	Contract signed between 2005 and 2008, and the mortgage will last until 2038.07.30	The Company mortgages its plant and land in Tuchen to Taiwan Cooperative Bank as guarantee for its loan provided to AirTAC Taiwan.	None

#### 6. AirTAC (China) Co., Ltd.

Nature of contract	Counterparty	Date of contract	Content	Covenant
Construction	Ningbo Yuansheng Construction Co., Ltd.	2011.09 .28	Ningbo Yuansheng Construction Co., Ltd. is awarded the contract to build the guard's room and power supply project of the Sales & Logistic Center	None

#### 7. AirTAC International (Singapore)

Nature of contract	Counterparty	Date of contract	Content	Covenant
Plant transaction	Sin Hiap Choon Pte Ltd	2011.08.18	Total price of transaction is SGD 8,560,000.	None
Construction	E-TACT Builders Pte. Ltd.	2012.02 .26	Total price of the plant construction is SGD 5,820,800.	None

## 6. Financial Highlights

### I. Condensed Balance Sheets and Statements of Income (2007 ~ 2011):

#### 6.1 Condensed balance sheet and statements of income

##### 1. Condensed balance sheet

In 1,000 TWD

Item	Year	Financial information, 2006 ~ 2010					Q1 2012 (Note 1)
		2007 (Note 1)	2008 (Note 1)	2009 (Note 1)	2010 (Note 1)	2011 (Note 1)	
Current assets		1,389,695	1,429,132	1,711,428	3,751,021	4,017,590	4,101,850
Funds and long-term investments		—	—	—	—	—	—
Fixed assets		2,230,808	2,555,853	2,544,151	2,790,964	4,282,670	4,737,970
Intangible assets		90,310	90,505	84,417	126,109	187,249	190,538
Other assets		17,090	29,293	39,647	41,914	73,990	78,916
Total assets		3,727,903	4,104,783	4,379,643	6,710,008	8,561,499	9,109,274
Current liabilities	Basic	884,685	782,401	1,340,167	1,306,903	2,548,021	2,966,435
	Diluted	—	—	—	2,027,953	(Note 2)	—
Long-term liabilities		830,929	1,167,834	446,171	666,939	258,394	252,546
Other liabilities		66,765	121,160	154,702	203,071	241,401	256,546
Total liabilities	Basic	1,782,379	2,071,395	1,941,040	2,176,913	3,047,816	3,475,779
	Diluted	—	—	—	2,897,963	(Note 2)	—
Capital stock		647,000	647,000	647,000	1,500,000	1,500,000	1,500,000
Capital surplus		645,278	707,131	1,642,892	1,991,694	2,156,080	2,101,135
Retained earnings	Basic	546,938	444,232	7,063	1,046,373	1,761,832	1,951,765
	Diluted	—	—	—	325,323	(Note 2)	—
Unrealized gain(loss) on financial instruments		—	—	—	—	—	—
Cumulative translation adjustments		(8,542)	(31,155)	12,480	(127,043)	(51,567)	(71,725)
Net loss not recognized as pension cost		—	—	—	—	—	—
Total stockholders' equity	Basic	1,945,524	2,033,388	2,438,603	4,533,095	5,513,683	5,633,495
	Diluted	—	—	—	3,812,045	(Note 2)	—

Note 1: 2007 ~ 2008 pro forma consolidated financial statements and 2009 ~ 2011 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2012 were only examined by CPA.

Note 2: The 2011 earnings distribution still awaits the approval of shareholders' meeting.

## 2. Condensed statements of income

In 1,000 TWD

Item \ Year	Financial information, 2006 ~ 2010					Q1 2012 (Note 1)
	2007 (Note 1)	2008 (Note 1)	2009 (Note 1)	2010 (Note 1)	2011 (Note 1)	
Operating revenue	2,409,458	2,714,119	2,861,528	4,299,093	5,638,304	1,249,045
Gross profit	1,077,347	1,283,564	1,476,609	2,275,223	2,919,419	661,316
Operating income (loss)	605,495	600,610	778,974	1,362,936	1,783,716	325,337
Non-operating income and gain	61,580	16,353	45,335	75,794	68,148	30,853
Non-operating expenses and loss	69,910	92,758	80,746	53,843	36,051	10,528
Income before tax from continuing operations	597,165	524,205	743,563	1,384,887	1,815,813	345,662
After-tax income (loss) from continuing operations	505,425	415,967	550,215	1,049,947	1,376,768	239,758
Income (loss) on discontinued operations	—	—	—	—	—	—
Extraordinary items	—	—	—	—	—	—
Cumulative effect of change in accounting principle	—	—	—	—	—	—
Net income (loss)	505,425	415,967	550,215	1,094,947	1,376,768	239,758
Earnings per share (TWD) (Note 2)	3.72	2.68	3.45	7.76	9.00	1.57

Note 1: 2007~2008 pro forma consolidated financial statements and 2009~2011 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2012 were only examined by CPA.

Note 2: Calculated using retroactively adjusted weighted average shares according to the resolution of capitalization of capital surplus adopted in shareholders' meeting held on June 29, 2010.

### 6.2 Names and audit opinions of certifying accountants for the past five years

Year	Name of certifying accountant	Name of accounting firm	Audit opinion
2007	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note)
2008	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note)
2009	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note)
2010	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Unqualified opinion
2011	Hsieh Ming-Chuang, Jacky	Deloitte & Touche	Unqualified opinion

	M. Chen		
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Note: The CPA added a paragraph in independent auditor's report to explain that the pro forma financial statements were prepared for AirTAC International Group to apply for listing on Taiwan Stock Exchange.

## 6.2 Financial Analysis (2007 ~ 2011)

Item		Year	Financial analysis					Q1 2012	
			2007	2008	2009	2010	2011		
Financial structure	Debt to asset ratio		47.81	50.46	44.32	32.44	35.60	38.16	
	Long-term capital to fixed assets ratio		124.46	125.25	113.39	186.32	134.78	124.24	
Solvency	Current ratio (%)		157.08	182.66	127.70	287.02	157.67	138.28	
	Quick ratio (%)		98.18	104.44	87.85	233.21	118.70	102.75	
	Times interest earned ratio		9.73	7.68	13.75	30.31	68.58	36.61	
Operating ability	Accounts receivable turnover ratio (times)		4.89	4.80	4.56	4.93	4.72	3.56	
	Average collection period (days)		74.65	76.00	80.04	74.03	77.33	102.52	
	Inventory turnover ratio (times)		3.43	2.59	2.47	3.29	3.23	2.31	
	Accounts payable turnover ratio (times)		4.72	6.43	9.14	9.42	10.09	7.48	
	Average days to sell inventory		106.41	140.92	147.77	110.9	113.0	158.00	
	Fixed asset turnover ratio (times)		1.26	1.13	1.12	1.61	1.59	1.11	
	Total asset turnover ratio (times)		0.65	0.66	0.65	0.64	0.66	0.55	
Profitability	Return on total assets (%)		17.73	12.12	14.00	19.58	18.30	11.16	
	Return on stockholders' equity (%)		32.07	20.91	24.61	30.12	27.41	17.21	
	% of paid-in capital (%)	Operating income		93.59	92.83	120.40	90.86	118.91	86.76
		Income before income tax		92.30	81.02	114.92	92.33	121.05	92.18
	Net income ratio (%)		20.98	15.33	19.23	24.42	24.42	19.20	
	Earnings per share (NTD)		3.72	2.68	3.45	7.76	9.00	1.57	
Cash flow	Cash flow ratio (%)		24.36	65.67	50.82	81.41	43.43	18.41	
	Cash flow adequacy ratio (%)		Note 3	Note 3	Note 3	Note 3	71.89	78.85	
	Cash reinvestment ratio (%)		5.26	6.60	2.50	17.52	13.89	7.76	
Leverage	Operating leverage		1.23	1.31	1.23	1.14	1.15	1.23	
	Financial leverage		1.13	1.15	1.08	1.04	1.02	1.03	

Note: Calculated using retroactively adjusted weighted average shares according to the resolution of capitalization of capital surplus adopted in shareholders' meeting held on June 29, 2010.

Reasons for changes in financial ratio in the most recent two years (increase or decrease by 20%):

1. Long-term capital to asset ratio declined, mainly due to the decrease in borrowing cost and high early-repay ratio that resulted in long-term loans.
2. Current ratio and quick ratio decreased mainly due to cash capital increase undertaken for IPO in 2010 that lead to

increase in bank deposits.

3. Change in times interest earned ratio was due to increase in profits and acquisition of foreign currency loans with low lending rate.
4. Operating profit and profit before tax to paid-in capital ratio increased, mainly due to the expansion in operations and increase of profits
5. Decrease in cash flow ratio was mainly due to the acquisition of short-term foreign currency loans with low lending rate that resulted in increase of current liabilities.
6. Capital expenditures in production capacity expansion, sales network building and R&D strengthening led to decrease in cash reinvestment ratio.

Note 1: 2009 ~ 2011 pro forma consolidated financial statements and 2010 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2012 were only examined by CPA.

Note 2: The Company did not prepare 2006 pro forma consolidated financial statements.

Note 3: No data on cash flows from operating activities in the past five years are available.

Note 4: Calculation formulas for financial ratios:

1. Financial structure

(1) Debt to asset ratio = total liabilities / total assets.

(2) Long-term capital to fixed assets ratio = (net stockholders' equity + long-term liabilities) / net fixed assets.

2. Solvency

(1) Current ratio = current assets / current liabilities.

(2) Quick ratio = (current assets – inventories – prepayments) / current liabilities.

(3) Times interest earned ratio = Net income before income tax and interest expense / current interest expense.

3. Operating ability

(1) Accounts receivable (including accounts receivable and notes receivable arising from operations) turnover ratio = Net sales / average accounts receivable (including accounts receivable and notes receivable arising from operations) outstanding.

(2) Average collection period = 365 / accounts receivable turnover ratio.

(3) Inventory turnover ratio = cost of goods sold / average amount of inventories.

(4) Accounts payable (including accounts payable and notes payable arising from operations) turnover ratio = cost of goods sold / average accounts payable (including accounts payable and notes payable arising from operations) balance.

(5) Average days to sell inventory = 365 / inventory turnover ratio.

(6) Fixed asset turnover ratio = Net sales / net fixed assets.

(7) Total asset turnover ratio = Net sales / total assets.

4. Profitability

(1) Return on total assets = [after-tax income (loss) = interest expense x (1 – tax rate)] / average total assets.

(2) Return on stockholders' equity = after-tax income (loss) / net average stockholders' equity.

(3) Net income ratio = after-tax income (loss) / net sales.

(4) Earnings per share = (after-tax income – preferred stock dividends) / weighted average number of shares outstanding. (Note 4)

5. Earnings per share

(1) Cash flow ratio = net cash flow provided by operating activities / current liabilities.

(2) Cash flow adequacy ratio = net cash flow provided by operating activities in the past five years / (capital expenditure + increase in inventories + cash dividends) in the past five years.

(3) Cash reinvestment ratio = (net cash flow provided by operating activities – cash dividends) / (gross fixed assets + long-term investment + other assets + working capital). (Note 5)

6. Leverage:

(1) Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income (Note 6).

(2) Financial leverage = Operating income / operating income – interest expense).



## **AirTAC International Group Audit Committee Report**

We have examined the 2011 consolidated financial statements, together with business report and earnings distribution proposal prepared by the Board of Directors and audited and certified by the Audit Committee and did not find any discrepancy. We hereby produce this report in accordance with provisions specified in Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and submit it for your review.

To

2012 General Shareholders' Meeting

AirTAC International Group

Member of Audit : Chang Bao-Guang

Independent Director: Chiang Chih-Chun

Independent Director: Leong Kam-Son

April 27, 2011

6.4 Latest annual financial statements and independent auditor's report: N/A.

6.5 Latest CPA-audited consolidated financial statements: see Appendix 1.

6.6 If the Company and/or its affiliated enterprises has encountered financial difficulties in the most recent year or in the current year up to the date of annual report, the impact of such situation on the Company's financial status: N/A.

## 7. Financial Status, Operating Performance and Risk Evaluation

### 7.1 Analysis of financial status

Unit: TWD 1,000; %

Year Item	2009	2010	Difference	
			Amount	%
Current assets	3,751,021	4,017,590	266,569	7
Funds and long-term investments	—	—	—	—
Fixed assets	2,790,964	4,282,670	1,491,706	53
Intangible assets	126,109	187,249	61,140	48
Other assets	41,914	73,990	32,076	77
Total Assets	6,710,008	8,561,499	1,851,491	28
Current liabilities	1,306,903	2,548,021	1,241,118	95
Long-term liabilities	666,939	258,394	(408,545)	(61)
Other liabilities	203,071	241,401	38,330	19
Total liabilities	2,176,913	3,047,816	870,903	40
Capital stock	1,500,000	1,500,000	-	-
Capital surplus	1,991,694	2,156,080	164,386	8
Retained earnings	1,046,373	1,761,832	715,459	68
Cumulative translation adjustment	(127,043)	(51,567)	(75,476)	(59)
Total stockholders' equity	4,533,095	5,513,683	980,588	22
<p>Reasons for significant changes: (Change in amount exceeding 10% and the amount accounting for 1% or more of year's total assets)</p> <ol style="list-style-type: none"> <li>1. Change in fixed assets and total assets were mainly due to expanding capacity, promoting operation efficiency, building R&amp;D Center and Sales &amp; Logistic Center and plants.</li> <li>2. Change in current liabilities and long-term liabilities were mainly due to decrease in borrowing cost and US dollar loans to repay RMB long-term loans and deal with the daily operating capital needs.</li> <li>3. Change in retained earnings and total stockholders' equity were mainly due to stable growth of profit for the current year.</li> </ol>				

## 7.2 Operating Performance

### 7.2.1 Analysis of operating performance

Unit: TWD 1,000; %

Item \ Year	2010	2011	Change	
			Amount	%
Total sales revenue	4,300,620	5,641,310	1,340,690	31
Net sales revenue	4,299,093	5,638,304	1,339,211	31
Operating cost	2,023,870	2,718,885	695,015	34
Gross profit	2,275,223	2,919,419	644,196	28
Operating expense	912,287	1,135,703	223,416	24
Operating income	1,362,936	1,783,716	420,780	31
Non-operating income	75,794	68,148	(7,646)	(10)
Non-operating expense	53,843	36,051	(17,792)	(33)
Net income before tax	1,384,887	1,815,813	430,926	31
Less: Income tax expense	334,940	439,045	104,105	31
Net income after tax	1,049,947	1,376,768	326,821	31
<p>Change in amount exceeding 10% and the amount accounting for 1% or more of year's total assets:</p> <ol style="list-style-type: none"> <li>Changes in operating income, operating costs and gross profit were due to effect of economic incentive plan carried out by Chinese government and increase in minimum wage that led to production automation in construction machinery, automotive industry, new energy, rail transit and electronics industry that resulted in increase in demands for pneumatic products. In addition, the Group has been able to develop new customers on the basis of existing clientele because of the stable growth in operating income, operating costs and gross profit.</li> <li>Change in operating Expense was due to continuous increase in operating income, build of sales network, personnel recruitment to strengthen R&amp;D Center.</li> <li>Change in net tax after tax was due to continuous increase in operating income and profit.</li> </ol>				

## 7.3 Cash Flows

### 1. Cash flows analysis

Unit: TWD 1,000; %

Item \ Year	2010	2011	Amount of increase (decrease)	Increase (decrease) (%)
Outflow in investing activities	676,591	1,860,549	1,183,958	175
Inflow (outflow) in financing activities	1,282,417	(97,707)	(1,380,124)	(108)
<p>Change analysis:</p> <ol style="list-style-type: none"> <li>Operating activity: Increase in demand for inventory by future production and acceptance receivable bill settlement by customers lead to decrease in net cash inflow, except the increase in net cash flow from NTD operating activity affected by the exchange rate between RMB and NTD.</li> <li>Investing activity: Increase in net cash outflow was mainly due to investments in plant construction in Guangzhou and Ningbo, purchase of machinery, and usage of idle fund in investments in financial instruments of structured deposits in 2011.</li> <li>Financing activity: Increase in net cash inflow was mainly due to cash capital increase undertaken in 2010 that led to sufficient own fund, the long-term loans were repaid successively in 2011 and the stock dividends were paid in the third quarter.</li> </ol>				

### 2. Liquidity analysis for the next year and remedial plan for improving liquidity:

The Company has formulated several capital spending plans for 2012. The anticipated profit growth in 2012 is expected to provide net cash inflow from operating activities in the year and cover the cash outflows in investing and financing activities. Hence the Company does not anticipate liquidity problem.

#### 7.4 Effect of major capital spending on financial position and business operation

The Company acquired TWD 615,338,000 and TWD 1,562,751,000 of fixed assets in 2010 and 2011, respectively as the Company continues to expand capacity in response to market demands. The table below depicts the Company's fixed asset and total asset turnover ratios in the past three years, which indicate that various turnover ratios were kept at certain level, that increase in capital spending did not produce adverse effect on the Company's financial condition.

Turnover ratio	2009	2010	2011
Fixed asset turnover ratio (times)	1.12	1.61	1.59
Total asset turnover ratio (times)	0.65	0.64	0.66

#### 7.5 Investment policy in the past year, profit/loss analysis, improvement plan, and investment plan for the coming year

##### 1. Company's investment policy

According to the Company's current investment policy, the Company will focus on investments that are related to the core business of the Company and has no plan to invest in other industries. Investment is carried out by designated department in accordance with the internally established internal control systems – Investment Cycle and Procedure for Acquisition or Disposal of Assets. The aforementioned systems or procedures have been passed by the board of directors' meeting or shareholders' meeting.

##### 2. Major reasons for investment profit/loss in recent years:

In TWD 1,000

Investee	Profit (loss) in the most recent year	Remark
Airtac Industrial (Hong Kong) Limited	835,678	Profit comes mainly from recognition of profit from investees Ningbo AirTAC, Gaungdong AirTAC, and AirTAC China.
Airtac Trading (Hong Kong) Limited	565,803	Profit comes mainly from recognition of profit from investees Jianliang (Shanghai).
Instant Reach International Limited	24,122	Profit comes mainly from recognition of profit from investees AirTAC

Investee	Profit (loss) in the most recent year	Remark
		Industrial Co. and ATC(ITALIA) S.R.L.
Airtac Holding (Singapore) Pte. Limited	812	Profit comes mainly from recognition of profit from investees Airtac International (Singapore) Pte. Limited.
Ningbo AirTAC Automatic Industrial Co., Ltd.	561,261	Expansion of operations.
Guangdong AirTAC Automatic Industrial Co., Ltd.	327,390	Expansion of operations.
AirTAC (China) Co., Ltd.	(38,711)	The operation has not reached economy of scale.
Jianliang (Shanghai) Trading Co.	657,290	Expansion of operations.
AirTAC Industrial Co.	57,448	Expansion of operations.
ATC (ITALIA) S.R.L	(7,845)	The operation has not reached economy of scale.
Airtac International (Singapore) Pte. Limited	836	The operation has not reached economy of scale.

### 3. Investment plan for the coming year

(1) The Company will complete the construction of Southeast Asia headquarters and a basic processing plant in Singapore and start to operation in 2012, and set up sales offices in other parts of Southeast Asia to expand operations and increase overseas market shares.

(2) Continue to invest and complete the building and expansion of R&D Center.

(3) Continue to build the Sales HQ & Logistic Center.

## 7.6 Risk Analysis

### 1. Effects of interest rate and exchange rate changes as well as inflation on Company's profit and response measures

(1) Interest rate: The Company's interest expense in 2010 and 2011 was TWD 74,249,000 and TWD 26,869,000 respectively, accounting for respectively 3.47% and 1.51% of the year's operating profit. High interest expense was mainly due to the fact that the Company's vertically integrated production processes required more working capital. As the Company's business scale expands, profitability improves and own capital is replenished, and the Company is able to access lower financing costs after listing, the Company is not expected to face the risk of interest rate increase that leads to jump in interest expense. However if the Company needs to borrow funds from financial institutions and interest rate rises in the future, increased interest expense will affect the Company's profit.

(2) Exchange rate: The main operations of the Group include Ningbo AirTAC, Guangdong AirTAC and Jianliang (Shanghai) that use RMB as their functional currency. Those companies would hold small-sum USD and Euro to pay for miscellaneous expenses of employees stationed abroad. The Company's exchange gain (loss) in 2008 ~ 2011 was \$(8,862,000), \$(14,501,000), \$35,986,000, and \$36,694,000 respectively, accounting for a very low percentage of the year's operating profit, at (1.48)%, (1.86)%, 2.64% , and 2.06% respectively.

The main operations of the Group do not face significant risk of exchange rate fluctuation. However after the Group's Cayman Islands holding company has become listed in Taiwan, the Company could be exposed to the risk of USD to TWD fluctuation for it might need to distribute dividends in TWD or exchange the funds raised in Taiwan into USD. To address the exchange rate risk, the Company's finance department might take the following actions:

Response measures:

- ① The finance department holds proper foreign currency positions in view of the trends of exchange rate to provide for the operation needs of subsidiaries and to reduce the effects of exchange rate fluctuation on the Company's profit.
- ② The finance department keeps close communication with corresponding banks and constantly monitors the foreign exchange market to enable the management to fully grasp the exchange rate variations and make timely adjustment in case of any contingent events relating to change of payment currency.
- ③ The finance department adopts automatic offset principle to address currency risk (i.e. both exports and imports are quoted in USD) and use forward exchange contracts and foreign currency borrowing in view of needs to reduce the effects of exchange rate fluctuation on Company profit.

(3) Inflation/deflation

The financial storm triggered by the US banking system in 2008 ravaged the global economy. The credit crunch at the early stage of the financial crisis was adverse to the economic growth. In addition, the irrational expansions undertaken by enterprises had led to excess capacity, causing deflation crisis among major nations. Since mid-2009, as European countries and the US launched financial bailout programs and their fiscal and monetary policies began to take effect, the near recession situation was under control in most countries. But an IMF report published in July 2009 points out that the stimulus packages launched by countries quickly increase their budget deficits and leads to loose liquidity that could cause inflation concerns.

Under the rapidly evolving macroeconomic environment, the Company has not been materially affected by the fear of inflation or deflation as described above. The products of the Company are sold mainly in China. By keeping a firm grasp on the price fluctuation of raw materials and end-products and maintaining good rapport with suppliers and clients, and adopting dynamic purchase and sales strategies, adjusting cost structure and trading terms in line with the market situation, the Company is able to effectively minimize the

effects of inflation or deflation on Company profit.

2. Policies regarding high-risk investments, high leverage investments, loans to other parties, endorsements, guarantees, and derivatives transactions; main reasons for the profits/losses generated thereby; and response measures

The Company has established “Procedure for Acquisition and Disposal of Assets”, “Procedure for Providing Loans to Others”, “Procedure for Endorsement and Guarantee Operation”, and “Procedure for Derivatives Transactions” for compliance by the Company and subsidiaries in undertaking related activities. As of date of annual report, the Company did not engage in any high-risk, high-leverage investments or derivatives transactions, but only provide loans to subsidiaries ATC and Ningbo AirTAC and provide endorsement/guarantee for subsidiary AirTAC Taiwan and write it off in the consolidated financial statements. However if the Company engages in high-risk, high-leverage investments, or provide endorsements/guarantees, or loans to others or engage in derivatives transactions in the future, the Company’s finance will be exposed to high risk, and any material loss therefrom could put the Company in financial difficulty or seriously erode the Company’s profit margin. But the Company has always focused on its core business and has not branched out into other high-risk industries. The Company also adopts a conservative financial policy and stay away from high-leverage investment. Thus the Company is exposed to limited associated risks.

3. Future R&D projects and estimated R&D expenditure

- ① The Company believes in technology autonomy and develops major process technologies in-house. The Company also puts equal emphasis on new technology and process technology R&D to improve and upgrade technological know-how continuously.
- ② The Company expands from mid and low-end automation application into the arena of high-end automation equipment based on existing technology, expansion of product lines and application of end-products.

The Company’s R&D expenditure as a percentage of sales revenue was 3.06%, 1.03%, and 2.03% respectively in the past three years, showing a general rising trend. The Company will continue to put in more R&D resources in line with the product development plans. If the Company fails to allocate resources to R&D in the future, future product development and R&D projects could be constrained, or the Company’s products could no longer keep up with the market trends or customer demands. Furthermore, the Company could lose customer orders that could produce material adverse impact on the Company’s operations.

4. Effect of changes in government policies and legal environment at home and abroad on Company’s finance and business, and response measures

The Company is registered in Cayman Islands and operates primarily in Taiwan, Hong Kong and China. Cayman Islands is a territory where financial services constitute its major economic activities, whereas China is a major economy in the world. The pneumatic components developed and sold by the Company are not in a concession business. In addition,

the Company operates its businesses in compliance with government policies and local and foreign laws. The Company constantly watches the trends of important government policies and changes in legal environment at home and abroad, respond readily to the changing market environment, and take appropriate actions. Up to 90% of the Company's clientele are located in China. The Company's major suppliers are also located in China. Given the special political relationship between China and Taiwan, the businesses of the Company's clients, suppliers, and of the Company itself could be influenced by the political, economic and legal environments in China and Taiwan. If the government policies, tax laws, economic situation or interest rate in China or Taiwan change, or if there are any political, diplomatic or social events involving China and Taiwan that affect the Company's clients or suppliers, the Company's businesses could be affected as well. The Company has been developing clientele and suppliers in other areas to minimize the aforementioned risks.

5. Effect of recent technological and market changes on the company's finance and business, and response measures

The modern-day technology evolves constantly. Aside from constantly grasping the trends in the industry, market and technology, the Group also engages in research on plastic and rubber materials with the aim to find the most appropriate materials for innovative application on products. The Company also undertakes innovative research on products and processes with the aims to provide most competitive products and services, and expand market share to address the dynamic industrial environment. As such, changes in technological and market environment are not expected to have any material impact on the Group's finance and business.

6. Effect of changes in corporate images on Company's risk management and response measures

Guided by the principle of honesty and the spirit of solid pragmatism, the Company has been operating based on the beliefs of "People Oriented, Commitments, Profit Sharing and Common Development" to strengthen internal management, and improve quality and efficiency. The Company continues to bring in outstanding and talented personnel to strengthen the management team. The Company shares its positive operating results with shareholders and acts as a good corporate citizen in giving back to the society. The Company maintains a good corporate image and is presently free of any incident that changes corporate image or puts the Company in crisis.

7. Expected benefits and possible risks associated with any merger and acquisitions, and mitigation measures

The Company did not undergo merger and acquisition in the most recent year and up to the date of annual report. If the Company undergoes merger and acquisition ("M&A") or reorganization in the future, it do not guarantee such activity will have positive effect on Company operations for such activity could keep the Company from focusing on its core business or produce negative impact on the corporate culture or employee retention.

If the Company plans to undergo M&A in the future, the Company will make careful evaluation and submit it to the board of directors in advance for approval, and in addition,



propose it to the shareholders' meeting for approval with the adoption of a special (supermajority) resolution in accordance with the Company's articles of association before proceeding with the M&A. Such procedural requirement is to ensure full preparation and communication beforehand so as to minimize any adverse effect of M&A.

8. Expected benefits and possible risks associated with any plant expansion and mitigation measures

In view of the industrial development trends, Guangdong AirTAC Automatic Industrial Co., Ltd. is building a new plant in Foshan, Guangdong, which is scheduled to be completed in the second quarter of 2012. The new plant will bring stable capacity and help reduce production costs. Aside from expanding own capacity in line with growth of the industry, the Company also maintains a long-term cooperative relationship with outside contractors to help regulate capacity utilization, thereby effectively addressing changes in business cycle and market demands.

9. Risks associated with over-concentration in purchase or sales, and mitigation measures

(1) Supplier concentration:

The Group is a pneumatic component manufacturer. Major raw materials for the Group's products include aluminum, copper, steel and plastic materials, which are essential materials for a large number of manufacturers. Thus there are already a large number of suppliers and sufficient supply on the market. The Group is not faced with the problem of finding alternative suppliers.

Purchase from any of the Group's major suppliers did not account for 10% or more of the total purchase in the past three years. Overall the Group does not run the risk of over-concentration in purchase

(2) Client concentration:

The Group sells primarily pneumatic components which are applied extensively in the automated machinery used in more than 50 industries, such as packaging, printing, plastic, bottle filling, ultrasound, healthcare, pharmaceutical, ceramic, welder, construction, lathe machine, sewing, automation, metallurgy, automobile, electronic, road construction, dyeing and finishing, weighing, textile, plastic, rinsing, and shoe making. No sale to any single customer accounts for more than 5% of the Group's total sales. Thus the Group does not run the risk of client concentration.

10. Effect on the Company in the event large quantity of shares belonging to a director, supervisor, or shareholder holding more than 10 percent interest in the Company has been transferred or has otherwise changed hands, associated risks and mitigation measures: None.

11. Effect of changes in management rights on the Company, associated risks and response measures

The Company did not have management rights changing hands in the most recent year and up to the date of annual report. The Company has been stepping up corporate governance by bringing in independent directors and established an audit committee to ensure greater shareholder protection. The Company relies mostly on professional managers in daily

operations. The strong professional management team has made considerable contribution to the Company operations and should continue to have the support of shareholders in the future. Thus any change to management rights in the future is not expected to have material negative effect on the competitive advantage of the Company in management and operation.

12. The outcome of concluded or pending litigious, non-litigious, or administrative litigation events involving the director, supervisor, president, de facto responsible person, major shareholders holding more than 10% interest, or subsidiary of the Company up to the date of annual report that might have material impact on stockholders' equity or Company stock price (facts in dispute, amounts involved, litigation commencement date, parties concerned, and progress as of the date of annual report): None.

13. Other major risks and response measures

- (1) Please see the section of the report on factors advantageous and disadvantageous to the future prospects of the Company and response measures for other major operational risks faced by the Company.
- (2) Risk of patent infringement: Under the trends of global economic liberalization, many companies would use patent infringement lawsuit as a strategic instrument to disrupt the business development of rivals. Thus as the Company continues to grow, the likelihood of facing patent infringement lawsuit from competitors also rises.
- (3) The Company has set up a unit to take charge of application and management of patents and trademark to protect its intellectual property rights. But those moves cannot assure that the Company's intellectual properties are fully protected from infringement by competitors or other companies.

(4) Possible lack of full protection under specific circumstances

The operations of a company are faced with a variety of risks and hazards, such as equipment breakdown, damage or malfunction, delay in delivery of equipment, limited capacity, employee strike, fire, natural disasters (e.g. earthquake or typhoon), environmental hazards or occupational hazards that could produce material adverse effects on the Group's operations. Although the Group has acquired insurance coverage for fixed assets and inventories according to the customary practice at the territory or country of operation, such insurance might not provide full protection under specific circumstances. If the Group sustains loss in any incident thereof, it could have adverse effect on the Group's operations.

7.7 Other important matters: None.

## 8. Special Notes

### 8.1 Profile of Subsidiaries and Affiliates:

8.1.1 Organization chart: Please see Company Overview

8.1.2 Profile of affiliates

In \$1,000

Name of affiliate	Date of establishment	Address	Paid-in capital	Major businesses or products
Airtac Industrial (Hong Kong) Limited	2008.11.10	Suites 2302-6, 23/F., Great Eagle Ctr., Harbour Road, Wanchai, Hong Kong	USD 47,020	General investment
Airtac Trading (Hong Kong) Limited	2008.11.10	Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong	USD 7,000	General investment
Instant Reach International Limited	2006.04.18	Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong	USD 8,840	General investment
Airtac Holding (Singapore) Pte. Limited	2011.08.11	1 Jalan Remaja #04-08J Hillview House Singapore (668662)	USD 10,000	General investment
Ningbo AirTAC Automatic Industrial Co.	2001.08.16	No. 88, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China	USD 32,000	R&D, production and sales of cylinders and air preparation units
Guangdong AirTAC Automatic Industrial Co.	2006.09.30	Building 19, Julong Industrial Zone, Xicha Rd., Guangxi City, Guangzhou Province, China	USD 6,000	Production of valves
AirTAC (China) Co., Ltd.	2011.05.06	No. 88, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China	USD 9,000	Sales of cylinders, valves, and air preparation units
Jianliang (Shanghai) Trading Co.	2006.09.10	F6, No. 58, Xiangcheng Rd, Pudong New District, Shanghai, China	USD 7,000	Sales of cylinders, valves and air preparation components
AirTAC Industrial Co.	2008.06.10	23 Ziyou Road, Tucheng City, Taipei County	NTD 230,000	Production and sales of cylinders
ATC (ITALIA) S.R.L.	2008.06.10	Via San Vittore 16, 20123 Milano, Italy	EUR 3,000	Sales of cylinders, valves and air preparation components
Airtac International (Singapore) Pte. Limited	2011.08.11	1 Jalan Remaja #04-08J Hillview House Singapore (668662)	USD 9,500	Production and sales of cylinders, valves and air preparation units

8.1.3 Information on same shareholders of the Company and an affiliate in which the Company has controlling or subordinate relationship with: None.

### 8.1.4 Profile of directors, supervisors and president of subsidiaries and affiliates

Unit: 1,000 shares

Name of affiliate	Title	Name	Shares held (Note)	Shareholding (Note)
Airtac Industrial (Hong Kong) Limited	Chairman	Wang Shih-Chung	1,423,531	100.00%
Airtac Trading (Hong Kong) Limited	Chairman	Wang Shih-Chung	211,925	100.00%
Instant Reach International Limited	Chairman	Wang Shih-Chung	267,631	100.00%
	Director	Wang Hai-Ming	267,631	100.00%
	Director	Shih Ming-Te	267,631	100.00%
Airtac Holding (Singapore) Pte. Ltd	Chairman	Wang Shih-Chung	302,750	100.00%
Ningbo AirTAC Automatic Industrial Co., Ltd.	Chairman	Wang Shih-Chung	968,800	100.00%
	President	Li Hui-Wen	968,800	100.00%
	Director	Lin Yong-Feng	968,800	100.00%
	Director	Wang Hai-Ming	968,800	100.00%
	Director	Wang Shan-Wen	968,800	100.00%
	Director	Lin Chiang-Ti	968,800	100.00%
	Supervisor	Gordon Shaw	968,800	100.00%
Guangdong AirTAC Automatic Industrial Co.	Chairman	Wang Shih-Chung	181,650	100.00%
	President/ Director	Lin Yong-Feng	181,650	100.00%
	Director	Wang Hai-Ming	181,650	100.00%
	Director	Wang Shan-Wen	181,650	100.00%
	Director	Lin Chiang-Ti	181,650	100.00%
	Supervisor	Gordon Shaw	181,650	100.00%
AirTAC (China) Co., Ltd.	Chairman	Wang Shih-Chung	272,475	100.00%
	President/ Director	Lin Chiang-Ti	272,475	100.00%
	Director	Gordon Shaw	272,475	100.00%
	Director	Wang Hai-Ming	272,475	100.00%
	Director	Zhou Hong-Yuan	272,475	100.00%
	Supervisor	Lin Yong-Feng	272,475	100.00%
Jianliang (Shanghai) Trading Co.	Chairman	Wang Shih-Chung	211,925	100.00%
	President/ Director	Lin Chiang-Ti	211,925	100.00%
	Director	Gordon Shaw	211,925	100.00%
	Director	Wang Hai-Ming	211,925	100.00%
	Director	Wang Hong-Bing	211,925	100.00%
	Supervisor	Lin Yong-Feng	211,925	100.00%
ATC (ITALIA) S.R.L.	Chairman	Wang Shih-Chung	117,540	100.00%
	President	Chou Chi-Li	117,540	100.00%
	Director	Lin Chiang-Ti	117,540	100.00%
	Director	Wang Shan-Wen	117,540	100.00%
AirTAC Industrial Co.	Chairman	Wang Shih-Chung	139,503	53.66%
	President/ Director	Yang Kuo-Yi	139,503	53.66%
	Director	Yeh Long-An	1,553	6.75%
	Director	Lin Wen-Tan	828	3.60%
	Director	Lan Shun-Cheng	139,603	53.66%
	Supervisor	Gordon Shaw	139,603	53.66%
Airtac International (Singapore) Pte. Ltd	Chairman	Wang Shih-Chung	287,613	100%

Notes: No shares are provided for it is a limited company and only capital contribution and proportion of contribution are shown.

Converted to TWD 1,000 based on exchange rate as of 2011.12.31.

### 8.1.5 Operational highlights of affiliates

In \$1,000

Name of enterprise	Paid-in capital	Total assets	Total liabilities	Networth	Operating income	Operating profit (loss)	Profit (loss) for the period	Earnings per share (\$)
Airtac Trading (Hong Kong) Limited	211,925	1,562,150	65,554	1,496,596	-	(82)	565,803	Note 1
Airtac Industrial (Hong Kong) Limited	1,423,531	3,648,619	109,038	3,539,581	-	(841)	835,678	Note 1
Instant Reach International Limited	267,631	335,460	-	335,460	-	(82)	24,122	Note 1
Jianliang (Shanghai) Trading Co.	211,925	2,241,822	1,216,773	1,025,049	4,748,813	853,127	657,290	Note 1
Ningbo AirTAC Automatic Industrial Co.	968,800	3,734,442	1,282,808	2,451,634	3,003,935	631,128	552,146	Note 1
Guangdong AirTAC Automatic Industrial Co.	181,650	1,122,863	113,086	1,009,777	1,121,043	354,162	314,911	Note 1
ATC (ITALIA) S.R.L.	117,540	137,480	62,869	74,611	107,065	(9,948)	(7,845)	Note 1
AirTAC Industrial Co.	230,000	851,045	533,050	317,995	461,653	42,440	54,571	2.37
AirTAC (China) Co.	272,475	349,989	82,739	267,250	280,452	(8,990)	(11,003)	Note 1
Airtac Holding (Singapore) Pte. Ltd	302,750	303,470	52	303,418	-	-	812	Note 1
Airtac International (Singapore) Pte. Ltd	287,613	288,329	53	288,276	-	-	836	Note 1

Note 1: Earnings per share could not be calculated for it is not a company limited by shares.

Note 2: The amounts were converted to TWD based on exchange rate on 2011.12.31.

8.1.6 Consolidated financial statements of affiliates: See Appendix 1.

8.1.7 Affiliation report: None.

8.2 Private placement activities in the most recent year and up to the date of annual report: None.

8.3 Holding or disposal of Company stocks by subsidiaries in the most recent year and up to the date of annual report: None.

8.4 Other necessary supplemental information: None.

8.5 Any event that has material influence on stockholders' equity or stock price as provided in

Subparagraph 2, Paragraph 2, Article 36 of the Securities and Exchange Act in the most recent year and up to the date of annual report: None.

8.6 Major differences (with ROC regulations) in shareholder protection: See Appendix 2.

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders  
AirTAC International Group

We have audited the accompanying consolidated balance sheets of AirTAC International Group (the "Company") and subsidiaries as of December 31, 2011 and December 31, 2010, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on the findings of our audits.

We have conducted our audits in accordance with the *Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants* and generally accepted auditing standards. 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 misstatements. 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 of AirTAC International Group and subsidiaries referred to in the first paragraph present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for 2011 and during the period of January 1 ~ December 31, 2010.

Deloitte & Touche  
HSIEH MING-CHUNG

Jacky M. Chen, CPA

Financial supervision Commission, Taiwan  
Executive Approval No. Jin-Guan-Zheng-  
Shen-Zi-1000028068

Securities & Futures Commission, Ministry of  
Finance Approval No. Tai-Cai-Zheng-Liu-Zi-  
0920123784

March 14, 2012

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars, Except Par Value)

Code	Assets	2011			2010			Code	Liabilities and shareholders' equity	2011			2010		
		RMB	NTD	%	RMB	NTD	%			RMB	NTD	%	RMB	NTD	%
1100	Current assets							2100	Current liabilities						
1310	Cash	\$ 262,772	\$ 1,263,145	15	\$ 431,205	\$ 1,914,766	29	2110	Short-term loans	\$ 347,648	\$ 1,671,145	20	\$ 136,949	\$ 608,122	9
1140	Financial assets at fair value through profit or loss	41,266	198,366	2	-	-	-	2140	Short-term bills payable	20,800	100,000	1	-	-	-
1178	Notes receivable and Accounts receivable, net	288,498	1,386,810	16	225,407	1,000,921	15	2160	Notes payable and Accounts payable	59,184	284,498	3	57,242	254,184	4
120X	Other receivables	9,928	47,724	1	12,354	54,859	1	2170	Income tax payable	21,406	102,897	1	16,365	72,668	1
1286	Inventories	205,191	986,353	11	157,385	698,870	10	2270	Accrued expenses	46,514	223,592	3	60,829	270,111	4
1298	Deferred income tax assets - current	11,020	52,973	1	6,437	28,582	-	2298	Current portion of long-term liabilities	8,610	41,390	1	4,864	21,599	-
11XX	Other current assets	17,104	82,219	1	11,942	53,023	1	21XX	Other current liabilities	25,910	124,499	1	18,066	80,219	1
	Total current assets	835,779	4,017,590	47	844,730	3,751,021	56		Total current liabilities	530,072	2,548,021	30	294,315	1,306,903	19
	Property, plant and equipment							2420	Long-term liabilities	53,746	258,394	3	150,194	666,939	10
1501	Cost							2810	Other liabilities						
1521	Land	33,271	159,957	2	38,054	168,979	2	2860	Accrued pension cost	21,305	102,415	1	22,615	100,420	1
1531	Buildings	487,725	2,344,496	27	383,529	1,703,059	25	28XX	Deferred income tax liabilities - noncurrent	28,913	138,986	2	23,117	102,651	2
1551	Machinery and equipment	301,551	1,449,557	17	238,751	1,060,174	16	2XXX	Total Other liabilities	50,218	241,401	3	45,732	203,071	3
1561	Transportation equipment	41,111	197,618	2	23,364	103,747	2		Total liabilities	634,036	3,047,816	36	490,241	2,176,913	32
1561	Office equipment and other	70,947	341,044	4	57,606	255,801	4		Shareholders' Equity						
15X1	Total cost	934,605	4,492,672	52	741,304	3,291,760	49		Parent's shareholders' equity						
15X9	Less: Accumulated depreciation	(221,112)	(1,062,884)	(12)	(178,827)	(794,081)	(12)	31XX	Common stock at par value of \$10 each; authorized and issued -2011.12.31 and 2010.12.31 :150,000 thousand shares	315,759	1,500,000	17	315,759	1,500,000	22
1670	Construction in progress and prepayments for equipment	177,425	852,882	10	66,048	293,285	4	32XX	Capital surplus	448,529	2,156,080	25	448,529	1,991,694	30
15XX	Total property, plant and equipment	890,918	4,282,670	50	628,525	2,790,964	41	3350	Unappropriated earnings	366,514	1,761,832	21	235,643	1,046,373	16
1750	Intangible assets							3420	Cumulative translation adjustments	(14,447)	(51,567)	(1)	(6,569)	(127,043)	(2)
1760	Computer software	4,270	20,526	-	4,636	20,587	1	3610	Minority Interest	1,116,355	5,366,345	62	993,362	4,411,024	66
1770	Goodwill	4,370	21,007	-	4,370	19,406	-	3XXX	Total shareholders' equity	30,651	147,338	2	27,490	122,071	2
1770	Deferred pension cost	1,808	8,691	-	2,960	13,144	-		Total Liabilities and shareholders' equity	1,147,006	5,513,683	64	1,020,852	4,533,095	68
1782	Land access	28,505	137,025	2	16,433	72,972	1								
17XX	Total intangible assets	38,953	187,249	2	28,399	126,109	2								
1830	Other assets														
1860	Deferred charges	11,336	54,490	1	5,857	26,009	1								
1880	Deferred income tax assets - noncurrent	3,798	18,257	-	3,366	14,948	-								
18XX	Other Assets	258	1,243	-	216	957	-								
1XXX	Total other assets	15,392	73,990	1	9,439	41,914	1								
1XXX	Total	\$ 1,781,042	\$ 8,561,499	100	\$ 1,511,093	\$ 6,710,008	100								

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

Chairman: Wang Shih-Chun

President: Lan Shun-Cheng

Accounting Chief: Tsao Yung-Hsiang



AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

C o d e	2011.1.1~2011.12.31			2010.1.1~2010.12.31				
	RMB	NTD	%	RMB	NTD	%		
4110	\$ 1,173,561	\$ 5,641,310	100	\$ 968,499	\$ 4,300,620	100		
4170	( 625 )	( 3,006 )	-	( 344 )	( 1,527 )	-		
4100	1,172,936	5,638,304	100	968,155	4,299,093	100		
5000	( 565,610 )	( 2,718,885 )	( 48 )	( 455,775 )	( 2,023,870 )	( 47 )		
5910	<u>607,326</u>	<u>2,919,419</u>	<u>52</u>	<u>512,380</u>	<u>2,275,223</u>	<u>53</u>		
	Operating expenses							
6100	( 123,716 )	( 594,702 )	( 10 )	( 100,555 )	( 446,515 )	( 11 )		
6200	( 88,789 )	( 426,807 )	( 8 )	( 94,936 )	( 421,561 )	( 10 )		
6300	( 23,756 )	( 114,194 )	( 2 )	( 9,956 )	( 44,211 )	( 1 )		
6000	<u>( 236,261 )</u>	<u>( 1,135,703 )</u>	<u>( 20 )</u>	<u>( 205,447 )</u>	<u>( 912,287 )</u>	<u>( 22 )</u>		
6900	<u>371,065</u>	<u>1,783,716</u>	<u>32</u>	<u>306,933</u>	<u>1,362,936</u>	<u>31</u>		
	Non-operating income and gains							
7110	1,031	4,956	-	515	2,288	-		
7160	7,633	36,694	1	8,104	35,986	1		
7480	<u>5,513</u>	<u>26,498</u>	<u>-</u>	<u>8,450</u>	<u>37,520</u>	<u>1</u>		
7100	<u>14,177</u>	<u>68,148</u>	<u>1</u>	<u>17,069</u>	<u>75,794</u>	<u>2</u>		
	Non-operating expenses and losses							
7510	( 5,589 )	( 26,869 )	( 1 )	( 10,641 )	( 47,249 )	( 1 )		
7880	( 1,910 )	( 9,182 )	-	( 1,485 )	( 6,594 )	-		
7500	<u>( 7,499 )</u>	<u>( 36,051 )</u>	<u>( 1 )</u>	<u>( 12,126 )</u>	<u>( 53,843 )</u>	<u>( 1 )</u>		
7900	377,743	1,815,813	32	311,876	1,384,887	32		
8110	( 91,335 )	( 439,045 )	( 8 )	( 75,428 )	( 334,940 )	( 8 )		
9600	<u>\$ 286,408</u>	<u>\$ 1,376,768</u>	<u>24</u>	<u>\$ 236,448</u>	<u>\$ 1,049,947</u>	<u>24</u>		
	Attributed to							
9601	\$ 280,871	\$ 1,350,146	24	\$ 234,167	\$ 1,039,818	24		
9602	<u>5,537</u>	<u>26,622</u>	<u>-</u>	<u>2,281</u>	<u>10,129</u>	<u>-</u>		
	<u>\$ 286,408</u>	<u>\$ 1,376,768</u>	<u>24</u>	<u>\$ 236,448</u>	<u>\$ 1,049,947</u>	<u>24</u>		
	Before Income Tax		After Income Tax		Before Income Tax		After Income Tax	
C o d e	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD
	Earnings per share							
9750	<u>\$ 2.47</u>	<u>\$11.88</u>	<u>\$ 1.87</u>	<u>\$ 9.00</u>	<u>\$ 2.31</u>	<u>\$10.25</u>	<u>\$ 1.75</u>	<u>\$ 7.76</u>
9850	<u>\$ 2.47</u>	<u>\$11.86</u>	<u>\$ 1.87</u>	<u>\$ 8.98</u>	<u>\$ 2.31</u>	<u>\$10.24</u>	<u>\$ 1.75</u>	<u>\$ 7.75</u>

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

Chairman: Wang Shih-Chun

President: Lan Shun-Cheng

Accounting Chief: Tsao Yung-Hsiang

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2011 and 2010  
(In Thousands of New Taiwan Dollars)

	Common stock		Capital surplus		Retained Earnings		Cumulative translation adjustments		Minority Interest		Total shareholders' equity	
	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD
BALANCE, JANUARY 1, 2010	\$ 135,228	\$ 647,000	\$ 343,378	\$1,642,892	\$ 1,476	\$ 7,063	\$ 2,730	\$ 12,480	\$ 26,997	\$ 129,168	\$ 509,809	\$2,438,603
Net income for the year ended December 31, 2010	-	-	-	-	234,167	1,039,818	-	-	2,281	10,129	236,448	1,049,947
Legal reserve ex-dividend	-	-	( 47,385 )	( 226,409 )	-	-	-	-	-	-	( 47,385 )	( 226,409 )
Issuance of common stock from capital surplus	143,131	683,000	( 143,131 )	( 683,000 )	-	-	-	-	-	-	-	-
Issuance of common stock for cash	37,400	170,000	286,310	1,300,768	-	-	-	-	-	-	323,710	1,470,768
Donations from shareholders	-	-	9,357	41,552	-	-	-	-	-	-	9,357	41,552
Change in translation adjustments	-	-	-	( 84,109 )	-	( 508 )	( 9,299 )	( 139,523 )	( 1,788 )	( 17,226 )	( 11,087 )	( 241,366 )
BALANCE, Dec 31, 2010	315,759	1,500,000	448,529	1,991,694	235,643	1,046,373	( 6,569 )	( 127,043 )	27,490	122,071	1,020,852	4,533,095
Cash dividends	-	-	-	-	( 150,000 )	( 721,050 )	-	-	-	-	( 150,000 )	( 721,050 )
Net income for the year ended December 31, 2011	-	-	-	-	280,871	1,350,146	-	-	5,537	26,622	286,408	1,376,768
Change in translation adjustments	-	-	-	164,386	-	86,363	( 7,878 )	75,476	( 2,376 )	( 1,355 )	( 10,254 )	324,870
BALANCE, Dec 31, 2011	<u>\$ 315,759</u>	<u>\$1,500,000</u>	<u>\$ 448,529</u>	<u>\$2,156,080</u>	<u>\$ 366,514</u>	<u>\$1,761,832</u>	<u>( \$ 14,447 )</u>	<u>( \$ 51,567 )</u>	<u>\$ 30,651</u>	<u>\$ 147,338</u>	<u>\$1,147,006</u>	<u>\$5,513,683</u>

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

Chairman: Wang Shih-Chun

President: Lan Shun-Cheng

Accounting Chief: Tsao Yung-Hsiang

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars)

	2011.1.1~2011.12.31		2010.1.1~2010.12.31	
	RMB	NTD	RMB	NTD
Cash flows from operating activities				
Net income	\$ 286,408	\$ 1,376,768	\$ 236,448	\$ 1,049,947
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	49,886	239,805	39,697	176,272
Amortization	5,653	27,177	4,712	20,925
Provision for doubtful accounts	2,782	13,375	468	2,078
Provision for(recovery of) loss on inventories	( 179 )	( 858 )	1,201	5,333
Loss on disposal of property, plant and equipment	1,265	6,081	1,316	5,842
Valuation gain on financial instruments	( 266 )	( 1,279 )	-	-
Deferred income tax	463	2,227	11,585	51,443
Accrued pension cost	( 158 )	( 760 )	4,352	19,325
Changes in operating assets and liabilities:				
Accounts receivable and Notes receivable	( 65,838 )	( 316,483 )	( 70,575 )	( 313,388 )
Other receivables	2,426	11,662	( 10,189 )	( 45,244 )
Inventory	( 47,722 )	( 229,400 )	( 47,494 )	( 210,897 )
Other current assets	( 5,162 )	( 24,814 )	( 288 )	( 1,279 )
Accounts payable and Notes payable	1,942	9,335	20,602	91,483
Income tax payable	5,189	24,944	5,685	25,244
Accrued expenses	( 14,315 )	( 68,812 )	35,213	156,363
Other current liabilities	<u>7,844</u>	<u>37,706</u>	<u>6,869</u>	<u>30,502</u>
Net cash provided by operating activities	<u>230,218</u>	<u>1,106,674</u>	<u>239,602</u>	<u>1,063,949</u>
Cash flows from investing activities				
Acquisition of property, plant and equipment	( 325,099 )	( 1,562,751 )	( 138,574 )	( 615,338 )
Proceeds from disposal of property, plant and equipment	1,975	9,494	784	3,481
Acquisition of financial assets designated as at fair value through profit or loss	( 41,000 )	( 197,087 )	-	-
Increase in Intangible assets and other assets	( <u>22,926</u> )	( <u>110,205</u> )	( <u>14,578</u> )	( <u>64,734</u> )

(Continued)

(Continued)

	2011.1.1~2011.12.31		2010.1.1~2010.12.31	
	RMB	NTD	RMB	NTD
Net cash used in investing activities	( 387,050 )	( 1,860,549 )	( 152,368 )	( 676,591 )
Cash flows from financing activities				
Increase in short-term loans	206,533	992,804	117,990	523,935
Proceeds from long-term debt	( 97,662 )	( 469,461 )	( 103,408 )	( 459,183 )
Increase (decrease) in short-term bills payable	20,800	100,000	( 2,107 )	( 9,356 )
Issuance of common stock for cash	-	-	( 47,385 )	( 210,413 )
Cash dividends appropriated from capital surplus	-	-	323,710	1,437,434
Cash dividends	( 150,000 )	( 721,050 )	-	-
Net cash used in financing activities	( 20,329 )	( 97,707 )	288,800	1,282,417
Effect of exchange rate changes	\$ 8,728	\$ 199,961	( \$ 18,872 )	( \$ 109,267 )
Net increase in cash and cash equivalents	( 168,433 )	( 651,621 )	357,162	1,560,508
Cash and cash equivalents, beginning of year	431,205	1,914,766	74,043	354,258
Cash and cash equivalents, end of year	\$ 262,772	\$ 1,263,145	\$ 431,205	\$ 1,914,766
Supplemental cash flow information				
Interest paid	\$ 5,584	\$ 26,842	\$ 9,248	\$ 41,066
Income tax paid	\$ 72,832	\$ 350,103	\$ 58,093	\$ 257,961
Non-cash investing and financing activities				
Current portion of long-term liabilities	\$ 8,610	\$ 41,390	\$ 4,864	\$ 21,599

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

Chairman: Wang Shih-Chun

President: Lan Shun-Cheng

Accounting Chief: Tsao Yung-Hsiang

AirTAC International Group and Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended December 31, 2011 and 2010  
(In Thousands of TWD, Unless Stated Otherwise)

1. HISTORY AND SCOPE OF BUSINESS

AirTAC International Group (referred to as the “Company” hereunder) was incorporated on September 16, 2009 in British Cayman Islands under reorganization mainly for the purpose of applying for listing on Taiwan Stock Exchange (“TWSE”). Admire Fame International Limited (referred to as “Admire Fame” hereunder), the Company’s parent company decided on December 23, 2009 with the approval of the shareholders to convert all stocks of Admire Fame to the stocks of the Company at the ratio of 1:1 (referred to as “stock swap” hereunder), and decided to dissolve and liquidate Admire Fame in 2010. Following the stock swap and reorganization, the Company becomes the holding company of a group of enterprises and engages in investment. The main businesses of other companies under the Group are provided under Note 2.

The Company’s stocks were listed on TWSE in December 2010.

As of December 31, 2012 and 2020, the Company and subsidiaries combined had 2,948 and 2,619 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with the *Guidelines Governing the Preparation of Financial Reports by Securities Issuers*, and generally accepted accounting principles. Significant accounting policies are described as follows:

(1) Basis of Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company, its more-than-50% directly or indirectly owned subsidiaries, as well as investees over which the Company has control. For subsidiaries where the Company acquires majority shares during the year, the revenue and expenses of such subsidiaries are included in the consolidated financial statements starting from the date on which the Company has control over the subsidiaries.

The financial statements of the Company and subsidiaries in China are denominated in RMB. The financial statements of other companies in the consolidated entity are stated in their respective functional currency. Thus in the preparation of the consolidated financial statements, all assets and liabilities accounts are converted into the RMB based on the exchange rate of their functional currency to RMB on the balance sheet date, whereas stockholders' equity accounts are converted into RMB based on the historical exchange rate and the profit and loss accounts are converted into RMB based on the average exchange rate during the statement period. After consolidation, except for the par value of capital stocks, which is converted to TWD 10 based on the historical exchange rate, the other accounts are converted to TWD based on the exchange rate on balance sheet date. Exchange differences arising from the currency conversion are included the cumulative translation adjustment and recorded as an adjustment under the stockholders' equity. The spot exchange rate of RMB to TWD as of December 31, 2011 and 2010 was respectively RMB\$1 = TWD 4.8070 and RMB\$1 = TWD 4.4405.

In the preparation of consolidated financial statements, all significant transactions between companies under the consolidated entity have been eliminated.

Please see Note 12 for 2009 pro forma consolidated financial statements of the Company.

On the basis of consolidated financial statements as described above, subsidiaries included in the consolidated financial statements in 2011 and 2010 are as follows:

Name of investing company	Name of subsidiary	Ownership in 2011	Ownership in 2010	Remark
AirTAC International Group	AirTAC Trading (Hong Kong) Limited	100%	100%	-
	AirTAC Industrial (Hong Kong) Limited	100%	100%	-
	Instant Reach International Limited	100%	100%	-
	AIRTAC HOLDING (SINGAPORE) PTE.LTD.	100%	-	Established on Aug. 11, 2011
AirTAC Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	100%	100%	-
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	100%	100%	-
	Guangdong AirTAC Automatic Industrial Co.	100%	100%	-
	AirTAC (China) Co., Ltd.	100%	100%	-
Instant Reach International Limited	ATC (ITALIA) S.R.L	100%	100%	-
	AirTAC Industrial Co.	53.66%	53.66%	-

AIRTAC HOLDING (SINGAPORE) PTE.LTD.	AIRTAC INTERNATIONAL (SINGAPORE) PTE.LTD.	100%	-	Established on Aug. 11, 2011, to be started operation
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Instant Reach International Limited, AirTAC Industrial (Hong Kong) Limited, AirTAC Trading (Hong Kong) Limited, and AIRTAC HOLDING (SINGAPORE) PTE.LTD. are primarily holding companies. Jianliang (Shanghai) Trading Co., Ltd. was established on September 11, 2006 with an operation period of 30 years and engages primarily in the wholesale and agency of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services. Ningbo AirTAC Automatic Industrial Co. was established on August 16, 2001 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic components, Actuator components, air preparation components, and pneumatic accessories. Guangdong AirTAC Automatic Industrial Co. (previously Guangzhou AirTAC Automatic Industrial Co.) was established on September 30, 2006 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic control components, Actuator components, air preparation components, and pneumatic accessories. AirTAC (China) Co., Ltd. was established on May 6, 2011 with an operation period of 50 years, and engages primarily in the production, R&D, distribution, storage of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services. AirTAC Industrial Co. was established on May 9, 1989 and engages primarily in the processing and sales of machinery and automated machines, manufacturing, processing and sales of hydraulic/pneumatic parts and components, and import and export trade of the aforementioned products. ATC (Italia) S.R.L was established on June 10, 2008 and engages primarily in the production and sales of pneumatic and hydraulic control components. AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD. is engaged in the production of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.

(2)Foreign Currency Transactions

Non-functional currency assets, liabilities, income and expenses resulting from non-functional currency transactions except derivative transactions are recorded at the prevailing exchange rates when the transactions occur. Upon settlement of non-functional currency transactions, the resulting exchange differences are recorded as current income or loss. On the balance sheet date, assets and liabilities denominated in non-functional currencies are revalued at the prevailing exchange rates and the resulting gains or losses are recorded as current income or loss.

(3) Accounting Estimation

Under above guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of property, plant and equipment, income tax, pension cost, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

(4) Current/Noncurrent Assets and Liabilities

Unrestricted cash and cash equivalents, assets held for trading and other assets to be converted to cash within one year from the balance sheet date are classified as current. Fixed assets and other assets not classified as current are noncurrent assets. Liabilities generated from trading and those to be paid or settled within one year from the balance sheet date are classified as current. All other liabilities are classified as noncurrent.

(5) Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company and subsidiaries recognize a financial asset or a financial liability on its balance sheet when the Company and subsidiaries become a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are re-



measured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade (OR: Settlement) date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: financial instruments without quoted prices in an active market - at values determined using valuation techniques.

#### (6) Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

1. Significant financial difficulty of the debtor;
2. Accounts receivable becoming overdue; or
3. It's probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed not to be impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a

portfolio of accounts receivable could include the Company's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

#### (7) Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, and deferred charges) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

#### (8) Allowances for Sales Returns and Others

Allowances for sales returns and others are generally recorded in the year the related revenue is recognized on the basis of past experience, management's judgment, and relevant factors.

#### (9) Inventories

Inventories include raw materials, supplies, finished goods and work-in-progress. Inventories are measured at lower of cost or net realizable value. The comparison of cost and net realizable value could be made on the basis of a classification of inventory and item by item. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business after deducting cost of the finished goods and selling expenses.

#### (10) Property, Plant and Equipment

Fixed assets are stated at cost less accumulated depreciation. Interest on expenditure incurred during the acquisition or construction of a fixed asset is capitalized as the cost of fixed asset. Major improvements or renewals are capitalized, while maintenance and repairs are charged to current expense.

All fixed assets have residual value estimated at 10% of cost and depreciation of fixed assets is calculated using the straight-line method over the service lives estimated as follows: buildings and structures -10 to 50 years; machinery and equipment -4 to 10 years; transportation equipment and office equipment: 2 to 5 years; other equipment- 4 to 15 years.

Upon disposal or scrap of a fixed asset, related cost and accumulated depreciation are deducted from the accounts, and any gain or loss thereof is recognized as current non-operating income or expense.

#### (11) Intangible Assets

Intangible assets are carried on the basis of cost of acquisition and amortized using straight-line method over the service life estimated as follows: land use right – 45 years; other intangible assets – 2 to 10 years.

#### (12) Goodwill

When comparing the difference between the acquisition cost and the net value of equity acquired, the acquisition cost is first analyzed. When the acquisition cost exceeds the fair value of identifiable net assets acquired, the excess should be recorded as goodwill. Goodwill is not amortized but impairment test is performed regularly each year or when there are indications that a specific event or change of circumstances could impair the goodwill.

#### (13) Deferred Charges

Deferred charges are amortized over 2 to 10 years.

#### Asset Impairment

When an asset (mainly fixed assets, intangible assets and deferred charges) sustains material impairment for its carrying value exceeds the recoverable amount, impairment loss should be recognized. If subsequently the recoverable amount of the asset increases, the impairment loss may be reverse and recognized as gain to the extent that the carrying value of the asset after reversal of impairment loss does not exceed its carrying value without the reorganization of impairment loss less amortization.

When performing impairment test, goodwill should be allocated to related cash-generating units that are expected to enjoy the benefit of consolidation. Besides when there are indications that a cash-generating unit to which goodwill is allocated is impaired, each cash-generating unit should perform impairment test to compare the unit's carrying value (goodwill included) and its recoverable amount. If the recoverable amount of a cash-generating unit is lower than its carrying value, the impairment loss should be allocated to reduce the carrying amount of the assets within the cash-generating unit in the following order. (a) First, reduce the carrying amount of the goodwill allocated to the cash-generating unit; and, (b) Then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the cash-generating unit. Impairment loss of goodwill recognized may not be reversed.

#### (14) Pension Costs

Under the defined benefit plan, pension costs are recognized on the basis of actuarial calculations. Under the defined contribution plan, Company's contributions to the employee's individual pension accounts throughout the service periods of employees are recognized as current expense.

The gain or loss generated from defined contribution plan curtailments or settlements is recorded as part of net pension cost as they occur.

#### (15) Income Tax

The Company adopts an inter-period and intra-period allocation for its income tax. Deferred income tax assets are recognized for the tax effects of deductible temporary differences, unused tax credits and unused investment credits and valuation allowances are provided to the extent, if any, that it is more likely than not that the deferred income tax assets will not be realized. Deferred income tax liabilities are recognized for the tax effects of taxable temporary differences. A deferred tax asset or liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or

liability in the financial statements, then it is classified as either current or non-current based on the expected length of time before it is realized or settled.

Tax credits for expenses associated with purchase of machinery/equipment, research and development, and personnel training are recognized for the current period.

Adjustment to income tax payable of prior years is recorded under current income tax.

For subsidiaries in China, income tax expenses incurred from tax withholding on earnings to be remitted out of China are estimated in the year of profit generation.

For subsidiaries in Taiwan, income taxes of 10% on undistributed earnings are recorded as income tax expenses in the year of shareholders' approval in accordance with the Income Tax Act of the Republic of China.

#### (16) Revenue Recognition

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

### 3. ACCOUNTING CHANGES AND EFFECTS

#### FINANCIAL INSTRUMENTS

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change does not produce

significant effect on the Company and subsidiaries' consolidated net profit for the year ended December 31, 2011.

#### OPERATING SEGMENTS

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Company that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Company restated the segment information to conform to the disclosures as of and for the year ended December 31, 2010.

#### 4. CASH AND CASH EQUIVALENTS

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Cash on hand	\$ 714	\$ 3,434	\$ 285	\$ 1,266
Checking and demand deposits	190,387	915,192	422,386	1,875,606
Foreign-currency deposits	47,541	228,527	-	-
	8,534	37,894	8,534	37,894
	<u>\$ 262,772</u>	<u>\$1,263,145</u>	<u>\$ 431,205</u>	<u>\$1,914,766</u>

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Financial assets for the purpose of transaction	<u>\$ 41,266</u>	<u>\$198,366</u>	<u>\$ -</u>	<u>\$ -</u>

Information of financial instrument for transaction by the Company and its subsidiaries

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Structured deposits	<u>\$ 41,266</u>	<u>\$198,366</u>	<u>\$ -</u>	<u>\$ -</u>

Unexpired structured deposits up to December 31, 2011

Nature of financial instrument	Contract period	Amount of the contract		Fair value	
		RMB	TWD	RMB	TWD
Structured deposits	2011.10.12~2012.01.12	\$20,000	\$96,140	\$20,236	\$97,274

Structured deposits	2011.12.16~20 12.02.06	5,000	24,035	5,013	24,097
Structured deposits	2011.12.21~20 12.03.01	5,000	24,035	5,008	24,077
Structured deposits	2011.12.22~20 12.01.30	5,000	24,035	5,006	24,063
Structured deposits	2011.12.28~20 12.01.30	<u>6,000</u>	<u>28,842</u>	<u>6,003</u>	<u>28,855</u>
		<u>\$41,000</u>	<u>\$197,087</u>	<u>\$41,266</u>	<u>\$198,366</u>

The net profit of financial assets for the purpose of transaction in 2011 was 786,000 RMB (NTD3,776,000).

6. NOTES AND ACCOUNTS RECEIVABLE-NET

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Notes and accounts receivable	\$ 294,582	\$1,416,056	\$ 228,748	\$1,015,757
Less: allowance for doubtful accounts	( 6,084)	( 29,246)	( 3,341)	( 14,836)
	<u>\$ 288,498</u>	<u>\$1,386,810</u>	<u>\$ 225,407</u>	<u>\$1,000,921</u>

7. INVENTORIES- NET

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Raw materials	\$ 40,439	\$ 194,389	\$ 33,051	\$ 146,765
Work in progress	79,452	381,924	58,363	259,159
Finished goods	<u>85,300</u>	<u>410,040</u>	<u>65,971</u>	<u>292,946</u>
	<u>\$ 205,191</u>	<u>\$ 986,353</u>	<u>\$ 157,385</u>	<u>\$ 698,870</u>

Allowance for reduction of inventory to market as of year-end 2011 and 2010 was respectively RMB 6,539,000 (TWD 31,432,000) and RMB 6,813,000 (TWD 30,253,000).

Costs of goods sold related to inventories in 2011 and 2010 were respectively RMB 565,610,000 (TWD 2,718,885,000) and RMB 455,775,000 (TWD 2,023,870,000), including net realizable value rallied profit in the amount of RMB 179,000 (TWD 858,000) and loss on market price decline in the amount of RMB 1,201,000 (TWD 5,333,000) respectively.

8. PROPERTY, PLANT AND EQUIPMEN – ACCUMULATED DEPRECIATION

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Buildings and structures	\$ 60,819	\$ 292,356	\$ 50,243	\$ 223,105
Machinery and equipment	105,426	506,783	83,241	369,269
Transportation equipment	41,694	200,423	34,954	155,215

Office equipment and miscellaneous	<u>13,173</u>	<u>63,322</u>	<u>10,389</u>	<u>46,132</u>
	<u>\$ 221,112</u>	<u>\$1,062,884</u>	<u>\$ 178,827</u>	<u>\$ 794,081</u>

Capitalized interest in 2011 and 2010 was respectively RMB 362,000 (TWD 1,740,000), and RMB 1,106,000 (TWD 4,911,000), at the capitalization rate of 6,108% and 5.83% respectively.

The pledge (collateralization) of fixed assets as of year-end 2011 and 2010 is detailed under Note 21.

9. INTANGIBLE ASSETS

	2011					
	Costs of software		Goodwill		Land use right	
	RMB	TWD	RMB	TWD	RMB	TWD
<u>Cost</u>						
Balance-beginning of period	\$ 9,671	\$ 42,943	\$ 4,370	\$ 19,406	\$ 17,253	\$ 76,614
Increase in the period	768	3,690	-	-	12,601	60,574
Decrease in the period	(953)	(4,580)	-	-	-	-
Foreign currency effect	( 59 )	3,263	-	1,601	-	6,323
Balance-end of period	<u>9,427</u>	<u>45,316</u>	<u>4,370</u>	<u>21,007</u>	<u>29,854</u>	<u>143,511</u>
<u>Accumulated amortization</u>						
Balance-beginning of period	( 5,035 )	( 22,356 )	-	-	( 820 )	( 3,642 )
Amortization	( 1,088 )	( 5,230 )	-	-	( 529 )	( 2,545 )
Decrease in the period	953	4,580	-	-	-	-
Foreign currency effect	13	( 1,784 )	-	-	-	( 299 )
Balance-end of period	<u>( 5,5157 )</u>	<u>( 24,790 )</u>	<u>-</u>	<u>-</u>	<u>( 1,349 )</u>	<u>( 6,486 )</u>
End-of-period net amount	<u>\$ 4,270</u>	<u>\$ 20,526</u>	<u>\$ 4,370</u>	<u>\$ 21,007</u>	<u>\$ 28,505</u>	<u>\$137,025</u>



	2010					
	Costs of software		Goodwill		Land use right	
	RMB	TWD	RMB	TWD	RMB	TWD
<u>Cost</u>						
Balance-beginning of period	\$8,903	\$42,598	\$4,370	\$20,909	\$5,936	\$28,401
Increase in the period	768	3,408	-	-	11,317	50,255
Foreign currency effect	-	(3,063)	-	(1,503)	-	(2,042)
Balance-end of period	<u>9,671</u>	<u>42,943</u>	<u>4,370</u>	<u>19,406</u>	<u>17,253</u>	<u>76,614</u>
<u>Accumulated amortization</u>						
Balance-beginning of period	(3,987)	(19,075)	-	-	(518)	(2,480)
Amortization	(1,048)	(4,656)	-	-	(302)	(1,340)
Foreign currency effect	-	1,375	-	-	-	178
Balance-end of period	<u>(5,035)</u>	<u>(22,356)</u>	<u>-</u>	<u>-</u>	<u>(820)</u>	<u>(3,642)</u>
End-of-period net amount	<u>\$ 4,636</u>	<u>\$ 20,587</u>	<u>\$ 4,370</u>	<u>\$ 19,406</u>	<u>\$ 16,433</u>	<u>\$ 72,972</u>

10. DEFERRED CHARGES

	2011		2010	
	RMB	TWD	RMB	TWD
<u>Cost</u>				
Balance-beginning of period	\$ 5,857	\$ 26,009	\$ 6,807	\$ 32,568
Increase in the period	9,515	45,737	2,412	10,712
Current-period amortization	(4,036)	(19,402)	(3,362)	(14,929)
Foreign currency effect	-	2,146	-	(2,342)
Balance-end of period	<u>\$ 11,336</u>	<u>\$ 54,490</u>	<u>\$ 5,857</u>	<u>\$ 26,009</u>

11. SHORT-TERM BANK LOANS

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Unsecured loan	\$ 339,328	\$1,631,145	\$ 136,949	\$ 608,122
Note-secured loan	8,320	40,000	-	-
	<u>\$ 347,648</u>	<u>\$1,671,145</u>	<u>\$ 136,949</u>	<u>\$ 608,122</u>

Annual interest rate on short-term bank loans ranged between 1.20%-2.79% in 2011 and ranged between 1.20%-1.61% in 2010.

The pledged (collateralized) loans of the Company and subsidiaries as of year-end 2011 and 2010 is detailed under Note 21.

12. SHORT-TERM NOTES AND BILLS PAYABLE

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Commercial paper payable	\$ 20,800	\$ 100,000	\$ -	\$ -

Annual interest rate in the end of 2011 was 0.87%~1.10%

13. LONG-TERM BANK LOANS

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Secured loan:				
Repay principal between November 2008 and August 2023 based on annuity method and pay interest on a monthly basis.	\$ 58,356	\$ 280,556	\$ 68,058	\$ 302,214
Secured loan:				
Due in April 2013, and paid off early in June 2011.	-	-	35,000	155,418
Secured loan:				
Due in September 2012, to be paid in full.	-	-	52,000	230,906
Secured loan:				
Due in September 2012, to be paid in full.	4,000	19,228	-	-
	62,356	299,784	155,058	688,538
Less: Current portion of long-term loans	( 8,610)	( 41,390)	( 4,864)	( 21,599)
Total	\$ 53,746	\$ 258,394	\$ 150,194	\$ 666,939

Annual interest rate on long-term bank loans ranged 1.51%-6.98% in 2011 and ranged 1.63%-5.88% in 2010.

The pledged (collateralized) loans of the Company and subsidiaries as of year-end 2011 and 2010 are detailed under Note 21.

14. STOCKHOLDERS' EQUITY

Originally the Company's registered capital and paid-in capital was both US\$20 million. Starting on April 17, 2010, the Company's paid-in capital of US\$20 million was converted into TWD 647,000,000 (in 64,700,000 shares with a par value of TWD 10 per share) at the exchange rate of 1:32.35. The Company held a general shareholders' meeting on June 29, 2010, in which, the shareholders approved a proposal to capitalize TWD 683,000,000 of capital surplus passed by the board of directors in its meeting on May 27, 2010. The capitalization resulted in the issue of 68,300,000 shares with a par

value of TWD 10 per share). The board of directors also passed a proposal in its meeting on October 20, 2010 to make cash offering of 17,000,000 shares with a par value of TWD 10 per share. The Company's paid-in capital was 150,000,000 shares on 2011.12.31.

#### Appropriation of earnings and dividend policy

Under the Company's Articles of Incorporation, the Company should make appropriations from its net income (less any deficit) in the following order:

Set aside special reserve in accordance with laws and regulations governing public companies or the requirements of the competent authorities; next 3% ~ 6% of the annual earnings proposed to be distributed is set aside as employee bonus; the remainder, if any, may be distributed as stock dividends or cash dividends or both in accordance with the applicable laws and regulations and in consideration of the year's profit situation and the Company's capital structure. Unless it is otherwise decided by the shareholders' meeting and board of directors' meeting, the amount of earnings distributed shall not be less than 60% of the year's after-tax earnings.

Based on the minimum percentage set out in the Company's Articles of Association, 2011 and employee cash bonus is respectively estimated at RMB 8,314,000 (TWD 39,964,000) and RMB 4,516,000 (TWD 20,053,000).

Earnings distribution proposal will be recorded on the financial statements for the year of distribution after it is passed in the board of directors' meeting held in the following year.

The Company's board of directors' meeting held on March 11, 2011 made a proposal of stock dividends distribution in 2010, and the Company's general shareholders' meeting held on June 9, 2011 approved the proposal to distribute in the amount of RMB 150,000,000 (dividend per share: RMB1).

#### Cash Dividends

The Company's general stockholders' meeting held on June 29, 2010 approved the proposal of capital reserve allotted dividends from the Company's board of directors' meeting held on May 27, 2010, to withdraw TWD 226,409,000 (USD 6,988,00) for cash dividends.

According to the resolution passed by stockholders' meeting held on 2011.06.09 and 2010.06.29, the Company distributed employee dividends for the year ended December 31, 2010 and September 16 (date of incorporation) ~December 31, 2009 as follows:

	<u>2010</u>	September 16 (date of incorporation) ~December 31, <u>2009</u>
	Cash Dividends (In thousands of RMB)	Cash Dividends (In thousands of RMB)
Bonus to employees	\$5,440	\$ -

	<u>2010</u>	September 16 (date of incorporation) ~December 31, <u>2009</u>
	Cash Dividends (In thousands of RMB)	Cash Dividends (In thousands of RMB)
Withdrawn amount passed by stockholders' meeting	\$5,440	\$ -
Recognized amount of financial statement of each year	4,516	-

The discrepancy between the 2010 employee dividends passed by stockholders' meeting and the employee dividends recognized in the financial statement for the year 2010 is due to the change of estimation and has been adjusted to the gains and losses of 2011. The payable cash dividends to employees for September 16 (date of incorporation) to December 31, 2009 had no distributional efficiency and the stockholders' meeting approved not to distribute.

The Company's board of directors' meeting held on March 14, 2012 passed the surplus distribution and dividend per share for the year 2011:

	<u>Surplus distribution</u>	<u>Dividend per share</u>
	Cash Dividends (In thousands of RMB)	Cash Dividends (In thousands of RMB)
	<u>2011</u>	<u>2010</u>
Cash dividends	\$169,500	\$ 1.13

Information on employee bonus and remuneration to directors and supervisors proposed by the board of directors and approved by the shareholders' meeting is available on TWSE Market Post Observation System.

#### 15. INCOME TAX

The Company and subsidiary Instant Reach International Limited are exempted from income tax. The income tax information of the other subsidiaries is as follows:

(1) Statutory tax rate

Name of subsidiary	2011	2010
AirTAC Industrial Co.	17%	17%
Jianliang (Shanghai) Trading Co., Ltd.	22%-25%	22-25%
Ningbo AirTAC Automatic Industrial Co.	15%	15%
Guangdong AirTAC Automatic Industrial Co.	12.5%	12.5%
AirTAC (China) Co., Ltd.	25%	25%
AirTAC Industrial (Hong Kong) Limited	16.5%	16.5%
AirTAC Trading (Hong Kong) Limited	16.5%	16.5%
ATC (Italia) S.R.L.	27.5%	27.5%
AIRTAC HOLDING (SINGAPORE) PTE. LTD.	17%	-
AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	17%	-

The following laws and regulations of the Republic of China amended and promulgated in May, 2010 are applicable to AirTAC Industrial Co., reducing the business income tax rate from 20% to 17%; the new clause was in force in 2010.

Guangdong AirTAC Automatic Industrial Co. is entitled to “two years of income tax exemption and three years of income tax at half the rate” under the preferential policy on enterprise income tax incentive. Year 2011 and 2010 was respectively the fifth year and the fourth year of the company’s profit year. Thus Guangdong AirTAC Automatic Industrial paid half the tax due in 2011 and 2010.

Ningbo AirTAC Automatic Industrial Co. was recognized by the tax authority as a high-tech enterprise in 2008 and is entitled to 15% preferential tax rate.

ATC (Italia) S.R.L. reported accumulated loss as of year-end 2011 and 2010, and AIRTAC HOLDING (SINGAPORE) PTE. LTD. as well as AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD. has not started operation until 2011.12.31, hence were not subject to income tax for those two years.

(2) Income tax expenses of continuing operations of the Company and subsidiaries:

a. Adjustment of income tax payable:

	2011		2010	
	RMB	TWD	RMB	TWD
Income tax due according to statutory tax rate	\$ 93,660	\$ 450,223	\$ 62,554	\$ 277,771
Tax effects of adjusted items				
Permanent difference	1,215	5,743	645	2,865
Temporary difference	751	3,611	1,420	6,306

R&D tax credit	( 1,531)	( 7,360)	( 467)	( 2,074)
Current tax credit of investment	( 11)	( 48)	-	-
Income tax payable	<u>\$ 90,152</u>	<u>\$ 433,461</u>	<u>\$ 64,152</u>	<u>\$ 284,868</u>

b. Income tax expense comprises the following:

	2011		2010	
	RMB	TWD	RMB	TWD
Income tax expense - current	\$ 90,152	\$ 433,461	\$ 64,152	\$ 284,868
Income tax expense - deferred	463	2,227	11,585	51,443
Adjustment of prior years' income tax	275	1,323	( 309)	( 1,371)
10% tax on unappropriated retained earnings	445	2,034	-	-
	<u>\$ 91,335</u>	<u>\$ 439,045</u>	<u>\$ 75,428</u>	<u>\$ 334,940</u>

c. Deferred income tax assets comprise the following:

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Current				
loss on market price decline and obsolete and slow-moving inventories	\$ 1,131	\$ 5,438	\$ 1,204	\$ 5,345
Allowance for doubtful accounts	1,314	6,314	689	3,059
Unrealized sales profit margin	5,152	24,767	-	-
Others	<u>3,423</u>	<u>16,454</u>	<u>4,544</u>	<u>20,178</u>
	<u>\$ 11,020</u>	<u>\$ 52,973</u>	<u>\$ 6,437</u>	<u>\$ 28,582</u>

(Continued)

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Non-current				
Excess pension cost	\$ 534	\$ 2,565	\$ 404	\$ 1,797
Loss carryforwards	3,264	15,692	2,955	13,121
Others	-	-	7	30
	<u>\$ 3,798</u>	<u>\$ 18,257</u>	<u>\$ 3,366</u>	<u>\$ 14,948</u>

4. Deferred income tax liabilities comprise the following:

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Non-current				
Tax withholding for dividends to be remitted out	<u>\$ 28,913</u>	<u>\$ 138,986</u>	<u>\$ 23,117</u>	<u>\$ 102,651</u>

- (3) The Company and subsidiary Instant Reach International Limited are exempted from income tax. The income tax returns of AirTAC Industrial Co. and ATC (ITALIA) S.R.L. have been respectively examined and cleared by the ROC tax authority and Italian taxing authority through 2008 and 2009. The other subsidiaries have also filed business income tax returns by the deadlines set by the local governments.

16. PENSIONS

In accordance with Labor Pension Act, AirTAC Industrial Co. makes monthly contributions at 6% of monthly salary to the individual pension account of respective employee and deposit the money with the Bureau of Labor Insurance. The pension cost recognized by AirTAC Industrial Co. in 2011 and 2010 was RMB744,000 (TWD 3,575,000) and RMB554,000 (TWD 2,460,000), respectively.

The employee retirement plan of AirTAC Industrial Co. incorporated in the ROC is a defined benefit plan. The benefits under the plan are based on length of service and average basic pay of the final six months of employment. AirTAC Industrial Co. makes monthly contributions that amount to 2% of total payroll to a pension fund. The fund is administered by the employees' pension fund committee and deposited in the Bank of Taiwan in the name of the committee.

Jianliang (Shanghai) Trading Co., Ltd., Ningbo AirTAC Automatic Industrial Co. and Guangdong AirTAC Automatic Industrial Co. have separate employee retirement plans set up, which are defined benefit plans.

The Company, Instant Reach International Limited, AirTAC Trading (Hong Kong) Limited, AirTAC Industrial (Hong Kong) Limited, and AirTAC (China) Co., Ltd. do not have employee retirement plan.

Pension related information under the defined benefit plan:

Net pension cost comprises the following:

	2011		2010	
	RMB	TWD	RMB	TWD
Service cost	\$ 2,888	\$ 13,883	\$ 3,391	\$ 17,456
Interest cost	483	2,321	640	2,842
Amortization	( 1,301 )	( 6,253 )	268	1,191
Expected return on plan assets	( 53 )	( 257 )	( 50 )	( 225 )
	<u>\$ 2,017</u>	<u>\$ 9,694</u>	<u>\$ 4,789</u>	<u>\$ 21,264</u>

Allocation of pension and adjustment of accrued pension liabilities:

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Benefit obligation				

Vested	\$ 5,444	\$ 26,168	\$ 5,400	\$ 23,980
Non-vested	<u>8,476</u>	<u>40,745</u>	<u>10,633</u>	<u>47,213</u>
Accumulated benefit obligation	13,920	66,913	16,033	71,193
Additional benefits based on future salaries	<u>6,926</u>	<u>33,294</u>	<u>9,554</u>	<u>42,424</u>
Projected benefit obligation	20,846	100,207	25,587	113,617
Fair value of plan assets	( <u>2,398</u> )	( <u>11,529</u> )	( <u>2,663</u> )	( <u>11,826</u> )
Funded status	18,448	88,678	22,924	101,791
Unrecognized net transitional obligation	( 8,408)	( 40,417)	( 9,156)	( 40,658)
Unamortized actuarial losses	9,458	45,464	5,887	26,143
Additional accrued pension cost liabilities	<u>1,807</u>	<u>8,690</u>	<u>2,960</u>	<u>13,144</u>
Accrued pension cost liabilities	<u>\$ 21,305</u>	<u>\$ 102,415</u>	<u>\$ 22,615</u>	<u>\$ 100,420</u>
Vested obligation under defined benefit plan	<u>\$ 12,575</u>	<u>\$ 60,448</u>	<u>\$ 11,603</u>	<u>\$ 51,523</u>

Assumptions for pension benefit obligations:

	<u>2011.12.31</u>	<u>2010.12.31</u>
Discount rate	2.00%-3.75%	2.25%-4.25%
Future salary increase rate	3.50%-5.00%	2.00%-5.00%
Expected return on plan assets	2.00%	2.00%

17. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

	2011					
	Cost of good sold		Operating expense		Total	
	RMB	TWD	RMB	TWD	RMB	TWD
Personnel expense						
Salaries	\$ 109,380	\$ 525,788	\$ 104,777	\$ 503,661	\$ 214,157	\$ 1,029,449
Pension costs	3,127	15,033	6,238	29,988	9,365	45,021
Others	15,216	73,145	16,758	80,553	31,974	153,698
Depreciation expense	32,616	156,786	17,270	83,019	49,886	239,805
Amortization expense	2,966	14,258	2,687	12,919	5,653	27,177

	2010					
	Cost of good sold		Operating expense		Total	
	RMB	TWD	RMB	TWD	RMB	TWD
Personnel expense						
Salaries	\$ 91,062	\$ 404,361	\$ 104,192	\$ 462,665	\$ 195,254	\$ 867,026
Pension costs	1,653	7,340	7,852	34,747	9,478	42,087
Others	12,100	53,730	20,349	90,361	32,449	144,091
Depreciation expense	28,046	124,537	11,651	51,735	39,697	176,272
Amortization expense	2,949	13,095	1,763	7,830	4,712	20,925

18. EARNINGS PER SHARE



Data used in calculating earnings per share:

	2011									
	Amount (numerator)				Number of shares (denominator) (1,000 shares)	Earnings per share (\$)				
	Before tax		After tax			Before tax		After tax		
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD		
Net income	\$ 377,743	\$ 1,815,813	\$ 286,408	\$ 1,376,768						
Basic EPS										
Consolidated net income attributed to parent company's shareholders	\$ 309,408	\$ 1,374,002	\$ 234,167	\$ 1,039,818	134,025	\$ 2.31	\$ 10.25	\$ 1.75	\$ 7.76	
Dilutive effect of common stock equivalent										
Employee bonus	-	-	-	-	318					
Diluted EPS	\$ 370,831	\$ 1,782,585	\$ 280,871	\$ 1,350,146	150,318	\$ 2.47	\$ 11.86	\$ 1.87	\$ 8.98	

	2010											
	Amount (numerator)				Number of shares (denominator) (1,000 shares)	Earnings per share (\$)						
	Before tax		After tax			Before tax		After tax				
	R	M	B	T	W	D	R	M	B	T	W	D
Net income	\$ 311,876		\$ 1,384,887		\$ 236,448		\$ 1,049,947					
Basic EPS												
Consolidated net income attributed to parent company's shareholders	\$ 309,408		\$ 1,374,002		\$ 234,167		\$ 1,039,818					
Dilutive effect of common stock equivalent												
Employee bonus	-		-		-		-		136			
Diluted EPS	\$ 309,408		\$ 1,374,002		\$ 234,167		\$ 1,039,818		\$ 2.31	\$ 10.24	\$ 1.75	\$ 7.75

The Company treats employee bonus and remuneration to directors and supervisors as expense instead of earnings distribution in accordance with the letter of Accounting Research and Development Foundation No. (96) Ji-Mi-Zi-052. The Company calculates the diluted earnings per share under the assumption that employee bonus will be distributed in the form of stock such that the weighted average shares outstanding thereof are included in the calculation. The calculation of diluted earnings per share uses the closing price of common stock on the date of balance sheet as basis for determining the number of shares issued. The dilution effect of those potential common shares continues to be taken into account when calculating the diluted earnings per share before the Company's shareholders' meeting held in the following year decides the number of shares to be issued for employee bonus.

19. FINANCIAL INSTRUMENTS

(1) Fair values of financial instruments:

Non-derivative instrument	2011.12.31				2010.12.31			
	Carrying value		Fair value		Carrying value		Fair value	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Liabilities								
Long-term bank loans (including current portion)	\$ 62,356	\$ 299,784	\$ 62,356	\$ 299,784	\$ 155,058	\$ 688,538	\$ 155,058	\$ 688,538

Derivative instrument's loss and profit inclusive of fair values	41,266	198,366	41,266	198,366
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(2) The Company and subsidiaries use following methods and assumptions to estimate the fair values:

1. The short-term financial instruments estimate the fair value through the carrying values in the balance sheet. Because the expiring the maturity dates of those instruments are close, their values provide reasonable basis for the estimation of fair value. The aforementioned financial instruments exclude cash, note and accounts receivable, other receivables, short-term bank loans, short-term notes payable and notes and accounts payable.
2. The fair values of long-term bank loans are estimated using discounted cash flow analysis based on interest rates for long-term bank loans with similar terms and conditions (similar maturities).
3. If a public offer of financial instrument whose fair value counted into the loss and profit is made by an active market, the market price will be the fair value. If there's no market price for reference, the evaluation methods will be used. The Company and subsidiaries apply the estimation and assumption of the evaluation methods for conformity of estimation and assumption information in financial instruments pricing with market participants.

(3) The Company and subsidiaries recognized the current profit was RMB 786,000 (TWD 3,776,000) in 2011, according to the re-measurement and change of the fair values in the market.

(4) Financial risks

a. Market risk

The Company and subsidiaries do not hold major financial assets that are significantly correlated with interest rate, exchange rate or market price. Hence the Company and subsidiaries are not exposed to significant market risk.

b. Credit risk

The Company and subsidiaries are under the potential influence of counterparties or other parties involved in the trading of financial assets failing to the contract. Those influences include the concentration and composition of credit risk associated with the financial instruments traded by the Company and subsidiaries, contract amounts, and other receivables. As of year-end 2011 and 2010, the Company and subsidiaries held financial assets with credit risk

(including mainly notes receivable, accounts receivable and other receivable) in the amount of RMB298,426,000 (TWD1,434,534,00) and RMB237,761,000 (TWD1,055,780,000) (mainly including notes receivable, accounts receivable, and other receivables), respectively. The maximum credit exposures of those financial instruments are the same as their carrying values. In addition, parties that the Company and subsidiaries do trade with are companies with good credit standing, and are not expected to cause significant credit risk.

c. Liquidity risk

The Company and subsidiaries had sufficient working capital to meet the cash needs and hence are not subject to liquidity risk associated with the inability to raise sufficient cash to meet the obligation of contract performance.

d. Cash flow risk due to interest rate change

The Company and subsidiaries' financial assets exposed to fair value risk due to interest rate change as of year-end 2011 and 2010 were respectively RMB47,541,000 (TWD228,527,000) and RMB0 (TWD0), and financial liabilities exposed to the same risk were respectively RMB20,800,000 (TWD100,000,000) and RMB0 (TWD0). As of year-end 2011 and 2010, financial assets exposed to cash flow risk due to interest rate change amounted to RMB214,517,000 (TWD 1,031,184,000) and RMB430,920,000 (TWD1,913,500,000), respectively, and financial liabilities exposed to the same risk amounted to RMB410,004,000 (TWD1,970,929,000) and RMB292,007,000 (TWD1,296,660,000), respectively.

20. RELATED PARTY TRANSACTION

(1) Names of related parties and relationships

<u>Related Party</u>	<u>Relationships with the Company</u>
Ningbo Comfort Health Equipment Co., Ltd.	The company's responsible person is a director of the Company.
Kunming AirTAC Automated Engineering Co., Ltd.	The company's responsible person is a director of the Company (no longer a related party after July 19, 2010).

(2) Significant transactions with related parties

a. Sale

<u>2011</u>	<u>2010</u>
-------------	-------------

	Amount			Amount		
	RMB	TWD	%	RMB	TWD	%
Ningbo Comfort Health Equipment Co., Ltd.	\$ 1,441	\$ 6,926	-	\$ 1,316	\$ 5,843	-
Kunming AirTAC Automated Engineering Co., Ltd.	<u>3,098</u>	<u>14,894</u>	<u>-</u>	<u>4,479</u>	<u>19,890</u>	<u>-</u>
	<u>\$ 4,539</u>	<u>\$ 21,820</u>	<u>-</u>	<u>\$ 5,795</u>	<u>\$ 25,733</u>	<u>-</u>

The 2010 amount of sales to Kunming AirTAC Automated Engineering Co., Ltd. in the table above is provided for inter-period comparison. Sales to the company from January 1 to July 19, 2010 amounted to RMB 2,311,000 (TWD 10,264,000).

b. Purchase

	2011			2010		
	Amount	Amount	%	Amount	Amount	%
	RMB	TWD	%	RMB	TWD	%
Kunming AirTAC Automated Engineering Co., Ltd.	<u>\$ 240</u>	<u>\$ 1,152</u>	<u>-</u>	<u>\$ 347</u>	<u>\$ 1,542</u>	<u>-</u>

The amount of purchase from Kunming AirTAC Automated Engineering Co., Ltd. in the table above is provided for inter-period comparison. Purchase from company from January 1 to July 19, 2010 amounted to RMB 283,000 (TWD 1,257,000).

c. Accounts receivable

	2011.12.31			2010.12.31		
	Amount		%	Amount		%
	RMB	TWD		RMB	TWD	
Ningbo Comfort Health Equipment Co., Ltd.	\$ 60	\$ 289	-	\$ 232	\$ 1,031	-
Kunming AirTAC Automated Engineering Co., Ltd.	176	844	-	645	2,886	-
	<u>\$ 236</u>	<u>\$ 1,133</u>	<u>-</u>	<u>\$ 877</u>	<u>\$ 3,897</u>	<u>-</u>

The amount of account receivable from Kunming AirTAC Automated Engineering Co., Ltd. in the table above is provided for inter-period comparison. Kunming AirTAC Automated Engineering is no longer a related party of the Company from July 19, 2010 on.

The balance as of 2009.12.31 includes receivable arising from sales to the related party prior to September 16, 2009 (date of incorporation).

The terms and conditions of the aforementioned transactions with related parties are not significantly different from those with non-related parties.

(3) Remuneration to directors, supervisors and management

	2011		2010	
	RMB	TWD	RMB	TWD
Salary	\$10,646	\$51,175	\$ 7,180	\$31,880
Reward and special allowance	2,389	11,483	1,370	6,084
Bonus	6,460	31,053	4,550	20,205
	<u>\$19,495</u>	<u>\$93,711</u>	<u>\$13,100</u>	<u>\$58,169</u>

21. PLEDGED ASSETS

The following assets of the Company and subsidiaries have been provided as collateral for long-term and short-term bank loans.

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Land	\$ 33,271	\$ 159,957	\$ 36,022	\$ 159,957
Buildings and structures-Net	100,281	482,052	236,671	1,050,937
Land use right	5,157	24,791	5,288	23,479
	<u>\$ 138,709</u>	<u>\$666,800</u>	<u>\$ 277,981</u>	<u>\$ 1,234,373</u>

22. COMMITMENTS AND CONTINGENT LIABILITIES

(1) As of year-end 2011, non-cancellable operating leases and contracts entered by the Company and subsidiaries are as follows:

	2011.12.31	
	RMB	TWD
Minimum rent payable under non-cancellable lease		
First year after date of balance sheet	\$4,004	\$19,247
Second year after date of balance sheet	1,944	9,345
Years thereafter	<u>2,319</u>	<u>11,147</u>
	<u>\$ 8,267</u>	<u>\$ 39,739</u>

(2) As of year-end 2011, the Company and subsidiaries had commitments in the amount of RMB 190,369,000 (TWD 915,104,000) in relation to purchase of equipment and plant construction.

### 23. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Company's reportable segments under SFAS No. 41 are therefore as follows :

- Pneumatic components – Direct selling
- Distributors

(1) Segment revenues and results

	Segment Revenue				Segment Profit			
	2011		2010		2011		2010	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Pneumatic components								
-Direct selling	\$ 824,036	\$ 3,961,140	\$ 676,846	\$ 3,005,535	\$ 323,713	\$ 1,556,088	\$ 280,950	\$ 1,247,558
-Distributors	348,900	1,677,164	291,309	1,293,558	137,062	658,857	120,918	536,936
Total amount	<u>\$ 1,172,936</u>	<u>\$ 5,638,304</u>	<u>\$ 968,155</u>	<u>\$ 4,299,093</u>	\$ 460,775	\$ 2,214,945	\$ 401,868	\$ 1,784,494
Interest income					1,031	4,956	515	2,288
Disposing fixed asset losses					(1,265)	(6,081)	( 1,316)	( 5,842)
Exchange gain					7,633	36,694	8,104	35,986
Financial instrument evaluation profit					786	3,776	-	-
HQ management cost and directors' remuneration					(85,628)	(411,608)	(86,654)	(384,790)
Interest expense					(5,589)	(26,869)	( 10,641)	( 47,249)
Net income before tax of continuing operations					<u>\$ 377,743</u>	<u>\$ 1,815,813</u>	<u>\$ 311,876</u>	<u>\$ 1,384,887</u>

The revenue reported above represents revenue from external customers. There were no inter-departmental sales in 2011 and 2010.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' compensation, investment income or loss recognized under the equity method, gain or loss on disposal of investments accounted for by the equity method, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on sale of investments, exchange gain or loss, valuation gain or loss on financial instruments, interest expense and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(2) Segment assets

	2011.12.31		2010.12.31	
	RMB	TWD	RMB	TWD
Department assets				
Pneumatic components				
-Direct Selling	\$ 1,241,868	\$ 5,969,690	\$ 1,185,319	\$ 5,144,012
-Distributors	539,174	2,591,809	325,774	1,565,996
Total amount of department assets	<u>\$ 1,781,042</u>	<u>\$ 8,561,499</u>	<u>\$ 1,511,093</u>	<u>\$ 6,710,008</u>

24. FOREIGN-CURRENCY FINANCIAL ASSETS AND EXCHANGE RATE OF LIABILITIES

Information on foreign-currency financial assets and liabilities with material influence on the Company and subsidiaries:

Unit: Foreign currency in thousands /RMB in thousands

	2011.12.31			2010.12.31		
	Foreign	Exchange	RMB	Foreign	Exchange	RMB

	<u>currency</u>	<u>rate</u>		<u>currency</u>	<u>rate</u>	
<u>Financial assets</u>						
<u>Currency</u>						
TWD	\$ 193,959	0.2080	\$ 40,343	\$ 384,081	0.2257	\$ 86,668
USD	6,306	6.3000	39,736	44,670	6.5923	294,479



(Continued)

	2011.12.31			2010.12.31		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Euro	\$ 1,557	8.1500	\$ 12,692	\$ 1,519	8.7939	\$ 13,358
HKD	220	0.8091	178	259	0.8481	219
SGD	3,338	4.8492	16,187	-	-	-
<b>Financial liabilities</b>						
<u>Currency item</u>						
TWD	374,994	0.2080	77,999	514,110	0.2252	115,778
USD	53,906	6.3000	339,593	17,604	6.5888	115,989
Euro	4	8.1500	33	177	8.7571	1,550
Japanese Yen	-	-	-	5,800	0.0807	468

## 25. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company pre-discloses the following information on the adoption of International Financial Reporting Standards (IFRSs) as follows:

(1) On May 14, 2009, the FSC announced the “Framework for Adoption of International Financial Reporting Standards by Companies in the ROC.” In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidances translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Mr. Tsao Yung-Hsiang. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2011 were as follows:

<u>Content of plan</u>	<u>Responsible Dept.</u>	<u>Status of execution</u>
1. Establishing a project team (did not appoint CPA to assist)	Group Office	Done
2. Making a plan of applying IFRSs instead	Financial Dept., Group Office	Done
3. Completing the identification of differences between current accounting policy and IFRSs	Financial Dept., Group Office	Done
4. Completing the identification of the combined individuals of IFRSs	Financial Dept., Group Office	Done
5. Completing the evaluation of	Financial Dept., Group	Done

impact of "First adoption of IFRSs" on the Company	Office	
6. Completing the evaluation of the required adjustment if the IT system	Financial Dept., Group Office	Done
7. Completing the evaluation of the required adjustment of the internal controlling	Financial Dept., Group Office	Done
8. Deciding the adopting of IFRSs accounting policy	Financial Dept., Group Office	Done
9. Deciding the exemption and selection articles of the "First adoption of IFRSs"	Financial Dept., Group Office	Done
10. Completing the issuance of statement of financial position in IFRSs opening date	Financial Dept., Group Office	Done
11. Completing the compilation of comparative financial information of IFRSs 2012	Financial Dept., Group Office	Normal progress
12. Completing the adjustment of related internal controlling (including financial reporting process and related IT system)	Financial Dept., Group Office	Normal progress

(2) As of December 31, 2011, the Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

Accounting issues	Description of discrepancies
Evaluation subject of the classification and allowance of deferred income tax	<p>1. According to the national General Acceptable Accounting Principles, the deferred income tax assets and liabilities are classified into current-noncurrent project according to the related assets or liabilities classification, while those without related assets or liabilities are classified into current-noncurrent project in terms of the expected return period. With IFRSs, the deferred income tax and liabilities are ranked into noncurrent project.</p> <p>2. With the national GAAP, the deferred income tax assets are recognized as allowable evaluation amount after being estimated the realizability. While with IFRSs, the deferred income tax is recognized</p>

only if the income tax profit most likely to be realized and the allowance evaluation will not be used anymore.

(Continued)

Short-term employee benefit

With IFRSs, the enterprise is supposed to recognize the paid short-term employee benefit as undiscounted amount during the period of employee's providing labor service for the enterprise.

Selection of functional currency of middle tier holding companies

1. With the national GAAP, the enterprise is permitted to adopt corridor approach or other quick recognizing approach to recognize the actuarial gains and losses, and all amortization amounts are recognized as gains and losses. While with IFRSs, the enterprise is permitted to adopt corridor approach or other quick recognizing approach to recognize the actuarial gains and losses, or all the gains and losses are recognized as other consolidated profit when the actuarial gains and losses happen.

2. With the national GAAP, the minimum pension liability is the portion of daily accumulated benefit obligation surpasses the pension assets. The insufficient part will be supplemented if the pension liability is below the portion. While with the IFRSs, there's no regulation of minimum pension.

The Company has prepared the above assessments in compliance with the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Standards Board continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TSE or traded on the

Taiwan GreTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in future may differ from those contemplated during the assessments.

26. ADDITIONAL DISCLOSURES

(1) Information on significant transactions:

No.	Item	Remark
1	Loans to others	Schedule 1
2	Endorsement/guarantee provided	Schedule 2
3	Marketable securities held at end of period	Schedule 3
4	Cumulative purchase or disposal of same marketable security exceeding TWD 100 million or 20% of paid-in capital	None
5	Acquisition of real estate exceeding TWD 100 million or 20% of paid-in capital	None
6	Disposal of real estate exceeding TWD 100 million or 20% of paid-in capital	None
7	Purchase/sale transactions with related parties exceeding TWD 100 million or 20% of paid-in capital	None
8	Receivables from related parties exceeding TWD 100 million or 20% of paid-in capital	None
9	Derivatives transactions	None

(2) Information on investees:

No.	Item	Remark
1	Names, locations and related information of investees	Table 4
2	Loans to others	None
3	Endorsement/guarantee provided	Table 2
4	Marketable securities held at end of period	Table 3
5	Cumulative purchase or disposal of same marketable security exceeding TWD 100 million or 20% of paid-in capital	None
6	Acquisition of real estate exceeding TWD 100 million or 20% of paid-in capital	Table 5
7	Disposal of real estate exceeding TWD 100 million or 20% of paid-in capital	None
8	Purchase/sale transactions with related parties exceeding TWD 100 million or 20% of paid-in capital	Table 6
9	Receivables from related parties exceeding TWD 100 million or 20% of paid-in capital	Table 7
10	Derivatives transactions	Note 5

(3) Information on Mainland China investment:

No.	Item	Remark
1	Names, locations and related information of investees in Mainland China	Table 8
2	Significant transactions with China investee directly or indirectly through a third-area enterprise	Table 6
3	Endorsement, guarantee or collateral provided by or for China investees directly or indirectly through a third area	Table 2
4	Financing with China investees directly or indirectly through a third area	Tables 1
5	Other transactions with material influence on current profit/loss or financial conditions	None

## AirTAC International Group and Subsidiaries

## Loans to Others

2011

Table 1

Unit: \$1,000

No.	Lender	Borrower	Financial Statement Account	Highest Balance for the Period (Note 3)	Ending balance (Note 3)	Interest Rate (%)	Nature of Financing	Transaction Amount	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Maximum Amount of Loans to Single Borrower (Note 4)		Maximum Amount of Loans to Others Allowed for Lender (Note 4)	
											Item	Value	RMB	TWD	RMB	TWD
1	AirTAC International Group	Ningbo AirTAC Automatic Industrial Co.	Other receivables	USD 40,000 (TWD 1,211,000) (Note 1)	USD 35,000 (TWD 1,059,625) (Note 1)	1.12-1.79	Short-term financing needs	\$ -	Revolving fund	\$ -	-	-	\$ 446,542	\$ 2,146,538	\$ 446,542	\$ 2,146,538
2	AirTAC International Group	ATC (Italia) S.R.L	Other receivables	EUR 2,000 (TWD 78,360) (Note 2)	EUR 1,000 (TWD 39,180) (Note 2)	0~1.20	Short-term financing needs	-	Revolving fund	-	-	-	446,542	2,146,538	446,542	2,146,538

Note 1: Amount actually drawn down in the period was USD 24,300,000.

Note 2: Amount actually drawn down in the period was EUR 1,000,000.

Note 3: Conversion to TWD used the spot exchange rate on 2011.12.31, that is, 1USD=30.275TWD · 1EUR=39.18TWD.

Note 4: According to Company's Loans to Others Procedure, the maximum loan to each borrower is 40% of the Company's networth at the end of period.

AirTAC International Group and Subsidiaries  
Endorsement/Guarantee Provided  
2011

Table 2

Unit: \$1,000

No.	Endorsement/ Guarantee Provider	Counterparty		Limit of Endorsement / Guarantee to Each Counterparty (Note 1)		Highest Balance for the Period (Note 3)	Ending Balance (Note 3)	Value of Collateral	Ratio of Accumulated Amount of Endorsement/ Guarantee to Networth Presented in the Latest Financial Statement (%)	Maximum Endorsement/ Guarantee Allowed (Note 2)	
		Entity	Nature of Relationship	RMB	TWD					RMB	TWD
1	AirTAC International Group	AirTAC Industrial Co.	Subsidiary	\$ 446,542	\$ 2,146,538	USD 6,000 (TWD 181,650)	\$ -	\$ -	-	\$ 558,178	\$ 2,683,173
2	AirTAC Industrial Co.	AirTAC International Group	Parent company	223,271	1,073,269	USD 12,500 (TWD 378,438)	\$ -	-	-	558,178	2,683,173

Note 1: Maximum endorsement/ guarantee allowed for a single enterprise is 40% of end-of-period networth for the Company and 20% of end-of-period networth for subsidiaries.

Note 2: Maximum endorsement/guarantee that can be made by the Company or subsidiaries is 50% of end-of-period networth.

Note 3: Conversion to TWD used the spot exchange rate on 2011.12.31, that is, 1USD=30.275TWD.

## AirTAC International Group and Subsidiaries

## Marketable Securities Held at End of Period

2011.12.31

Table 3

Unit: \$1,000

Holder	Type an Name of Security	Relationship with Issuer	Financial Statement Account	Shares	2011.12.31					Note (Notes 2 & 3)
					Carrying Value		Percentage of Ownership (%)	Market Value / Net Asset Value		
					RMB	TWD		RMB	TWD	
AirTAC International Group	AirTAC Industrial (Hong Kong) Limited	Subsidiary	Investments accounted for using equity method	26,000,000	\$ 783,313	\$ 3,549,071	100	\$ 738,313	\$ 3,549,071	
	AirTAC Trading (Hong Kong) Limited	Subsidiary	Investments accounted for using equity method	7,000,000	311,585	1,497,789	100	311,585	1,497,789	
	Instant Reach International Limited	Subsidiary	Investments accounted for using equity method	1	62,590	300,870	100	62,590	300,870	
	AIRTAC HOLDING (SINGAPORE) PTE. LTD.	Subsidiary	Investments accounted for using equity method	10,000,000	63,120	303,418	100	63,120	303,418	
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	Subsidiary	Investments accounted for using equity method	(Note 1)	488,956	2,350,411	100	488,956	2,350,411	
	Guangdong AirTAC Automatic Industrial Co.	Subsidiary	Investments accounted for using equity method	(Note 1)	207,367	996,813	100	207,367	996,813	
	AirTAC (China) Co., Ltd.	Subsidiary	Investments accounted for using equity method	(Note 1)	49,832	239,542	100	49,832	239,542	
AirTAC Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	Subsidiary	Investments accounted for using equity method	(Note 1)	231,241	1,025,049	100	213,241	1,025,049	
Instant Reach International Limited	AirTAC Industrial Co.	Subsidiary	Investments accounted for using equity method	12,340,650	44,091	211,050	53.66	44,091	211,050	
	ATC (Italia ) S.R.L	Subsidiary	Investments accounted for using equity method	3,000,000	12,761	61,342	100	12,761	61,342	
AIRTAC HOLDING (SINGAPORE) PTE. LTD.	AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Subsidiary	Investments accounted for using equity method	9,500,000	59,970	288,276	100	59,970	288,276	

Note 1: No shares for it is not a company limited by shares.

Note 2: No securities held were pledged.

Note 3: All have been offset in the preparation of consolidated financial statements.



## AirTAC International Group and Subsidiaries

## Information of Investees

2011

Table 4

Unit: \$1,000

Investor Company	Investee Company	Location	Main Businesses	Original Investment		Balance as of December 31, 2011				Net Income (Loss) of Investee for the Period		Investee Gain (Loss) Recognized for the Period		Note		
				2011.12.31 (Note 1)	2010.12.31 (Note 1)	Shares (Thousands)	Percentage of Ownership (%)	Carrying Amount		RMB	TWD	RMB	TWD		RMB	TWD
								RMB	TWD							
AirTAC International Group	AirTAC Industrial (Hong Kong) Limited	Hong Kong	General investment	USD 47,020 (TWD 1,423,531)	USD 26,000 (TWD 787,150)	26,000,000	100	\$ 738,313	\$3,549,071	\$ 173,846	\$ 835,678	\$ 173,846	\$ 835,678			
	AirTAC Trading (Hong Kong) Limited	Hong Kong	General investment	USD 7,000 (TWD 211,925)	USD 7,000 (TWD 211,925)	7,000,000	100	311,585	1,497,789	117,704	565,803	117,704	565,803			
	Instant Reach International Limited	British Virgin Island	General investment	USD 8,840 (TWD 267,631)	USD 7,416 (TWD 224,519)	1	100	62,590	300,870	5,018	24,122	5,018	24,122			
	AIRTAC HOLDING (SINGAPORE) PTE. LTD.	Singapore	General investment	USD 10,000 (TWD 302,750)	-	10,000,000	100	63,120	303,418	169	812	169	812			
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	Jejiang China	Production of pneumatic control components and auxiliary components	USD 32,000 (TWD 968,800)	USD 20,000 (TWD 605,500)	-	100	488,956	2,350,411	114,863	552,146					
	Guangdong AirTAC Automatic Industrial Co.	Guangdong China	Production of pneumatic control components and auxiliary components	USD 6,000 (TWD 181,650)	USD 6,000 (TWD 181,650)	-	100	207,367	996,813	65,511	314,911					
	AirTAC (China) Co., Ltd.	Jejiang China	Wholesale, distribution and related business of pneumatic components, tools and equipments	USD 9,000 (TWD 272,475)	-	-	100	49,832	239,542	(2,289)	(11,003)					
AirTAC Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	Shanghai China	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 7,000 (TWD 211,925)	USD 7,000 (TWD 211,925)	-	100	213,241	1,025,049	136,736	657,290					
Instant Reach International Limited	AirTAC Industrial Co.	Tucheng District, New Taipei City	Processing, sales and import/export of machines and components	TWD 139,503	TWD 139,503	12,340,650	53.66	44,091	211,050	11,951	57,448					
	ATC (Italia) S.R.L	Via Mauro Macchi n.27, 20124 Milano (MI)	Production and sales of pneumatic and hydraulic control components	EUR 3,000 (TWD 117,540)	EUR 2,000 (TWD 78,360)	3,000,000	100	12,761	61,342	(1,632)	(7,845)					
AIRTAC HOLDING (SINGAPORE) PTE. LTD.	AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Singapore	Production and sales of pneumatic control components and auxiliary	USD 9,500 (TWD 287,613)	-	9,500,000	100	59,970	288,276	174	836					

Note 1: Conversion to TWD used the spot exchange rate on 2011.12.31, that is, 1USD=30.275TWD · 1EUR=39.18TWD.

Note 2: The write-off was done when the consolidated financial statement was formed.

AirTAC International Group and Subsidiaries  
Acquisition of Real Estate Exceeding TWD 100 million or 20% of Paid-in Capital by Investees

Table 5

Unit: \$1,000

Acquiring company	Title of property	Transaction date or occurrence date	Transaction amount		Payment	Counterparty	Relationship	Where the counterparty is a related party, the previous transfer information				Pricing reference and basis	Purpose of acquisition and use	Other agreements
			RMB	TWD				Owner	Relationship with issuer	Date of transfer	Amount			
Ningbo AirTAC Automatic Industrial Co.	Administration building	2011.01.25	\$ 45,661 (Note)	\$ 219,492	N/A	Self building	-	-	-	-	\$ -	N/A	As land for building company's administration building	

Note: RMB 42,031,000 (TWD 186,640,000) was included in the expenses of incomplete construction cost and prepayments for equipment in the end of 2010.

AirTAC International Group and Subsidiaries  
Purchase/sale Transactions with Related Parties Exceeding TWD 100 Million or 20% of Paid-in Capital

2011

Table 6

Unit: \$1,000

Purchaser (Seller)	Counterparty	Relationship	Transaction				Non-arm's Length Transaction and Reasons		Notes/Accounts Payable/ Receivable			Note	
			Purchase (Sale)	Amount		% of Total	Payment Term	Balance		% to Total			
				RMB	TWD			Unit Price (Note)	Payment Terms (Note)		RMB		TWD
Ningbo AirTAC Automatic Industrial Co.	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	Sale	\$ 435,529	\$2,093,588	70	T/T 60 days	-	-	\$ 82,116	\$ 394,732	76	
	Guangdong AirTAC Automatic Industrial Co.	Same ultimate parent company	Sale	79,742	383,320	13	T/T 60 days	-	-	6,951	33,413	6	
Guangdong AirTAC Automatic Industrial Co.	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	Sale	143,064	687,709	61	T/T 60 days	-	-	9,778	47,003	21	

Note: The terms for transactions between related parties were as agreed by the parties as there were no similar transactions to follow.

AirTAC International Group and Subsidiaries  
 Receivables from Related Parties Exceeding TWD 100 Million or 20% of Paid-in Capital  
 2011.12.31

Table 7

Unit: \$1,000

Receiving Company	Counterparty	Relationship	Ending Balance		Turnover rate (%)	Overdue Accounts Receivable		Recovered Amount		Allowance for Bad Debt
			RMB	TWD		Amount	Handling Method	RMB	TWD	
Ningbo AirTAC Automatic Industrial Co.	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	\$ 82,116	\$ 394,732	8	\$ -	-	\$ 17,000	\$ 81,719	\$ -
Guangdong AirTAC Automatic Industrial Co.	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	42,456	188,527	5	-	-	32,418	143,953	-

AirTAC International Group and Subsidiaries  
Investments in Mainland China  
2011

Table 8

Unit: \$1,000

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital (Note 3)	Investment Type	Accumulated Investment Outflow from Taiwan as of 2010.01.01	Investment Flow for the Period		Accumulated Investment Outflow from Taiwan as of 2010.12.31	% of Ownership – Direct and Indirect (%)	Investment Gain (Loss) Recognized for the Period (Note 2)		Carrying Value as of 2010.12.31		Accumulated Inward Remittance of Earnings as of 2010.12.31
					Outflow	Inflow			RMB	TWD	RMB	TWD	
Ningbo AirTAC Automatic Industrial Co.	Production of pneumatic control components and auxiliary components	USD 32,000 (TWD 968,800)	N/A	N/A	\$ -	\$ -	N/A	100	\$ 116,759 2.(1)	\$ 561,261	\$ 488,956	\$ 2,350,411	N/A
Guangdong AirTAC Automatic Industrial Co.	Production of pneumatic control components and auxiliary components	USD 6,000 (TWD 181,650)	N/A	N/A	-	-	N/A	100	68,107 2.(1)	327,390	207,367	996,813	N/A
AirTAC (China) Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 9,000 (TWD 272,475)	N/A	N/A	-	-	N/A	100	(8,053) 2.(1)	(38,711)			
Jianliang (Shanghai) Trading Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 7,000 (TWD 211,925)	N/A	N/A	-	-	N/A	100	136,736 2.(1)	657,290	213,241	1,025,049	N/A

Accumulated Investment Outflow from Taiwan	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit of Investment according to Investment Commission
N/A	N/A	N/A

Note 1: The ways to invest in companies in Mainland China are classified into five types below. Mark the type of investment:

1. Direct investment.
2. Investment through third-area remittance.
3. Investment through a company established in a third area.
4. Investment by investing in an existing company in a third area.
5. Other ways, ex.: mandated investment.

Note 2: In the field of “Investment Gain (Loss) Recognized for the Period”:

1. If the company is still in preparation and has not incurred any investment gain or loss, indicate so..
2. Recognition of investment gain (loss) can be based on any of the following and should be noted:
  - (1) Financial statements audited by a multinational accounting firm having a cooperative relationship with an accounting firm in Taiwan.
  - (2) Financial statements audited by the certifying CPA for parent company in Taiwan.
  - (3) Unaudited financial statements.
  - (4) Others.
3. Investment gain (loss) recognized for the period has deducted the unrealized sales profit between affiliates.

Note 3: Conversion to TWD used the spot exchange rate on 2011.12.31, that is, 1USD=30.275TWD.

AirTAC International Group and Subsidiaries  
Intercompany Relationships and Significant Transactions  
2011

Table 9

Unit: \$1,000

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
1	Jianliang (Shanghai) Trading Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	\$ 59	\$ 284	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	435,509	2,093,492	General terms and conditions	37%
		Ningbo AirTAC Automatic Industrial Co.	3	Non-Operating expense	20	96	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	6	29	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	82,116	394,732	General terms and conditions	5%
		Ningbo AirTAC Automatic Industrial Co.	3	Overhead	289	1,389	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Disposal of fixed asset	276	1,327	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	82	394	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	143,064	687,709	General terms and conditions	12%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	9,778	47,003	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Other receivable	20	96	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Operating expense	120	577	General terms and conditions	-
		AirTAC (China) Co.	3	Accounts payable	261	1,255	General terms and conditions	-
		AirTAC (China) Co.	3	Costs of goods sold	58,343	280,455	General terms and conditions	5%
		2	Ningbo AirTAC Automatic Industrial Co.	Hong Kong AirTAC Trading Co., Ltd.	2	Dividends payable	111,370	535,356
AirTAC International Group	2			Other payable	153,112	736,009	General terms and conditions	9%
AirTAC International Group	2			Other current liabilities	1,411	6,783	General terms and conditions	-
AirTAC International Group	2			Interest expense	3,241	15,579	General terms and conditions	-
AirTAC (China) Co.	3			Rent income	225	1,083	General terms and conditions	-
AirTAC (China) Co.	3			Other receivable	8,092	38,898	General terms and conditions	-
AirTAC (China) Co.	3			Land-use right	7,947	38,201	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Sales revenue	79,742	383,320	General terms and conditions	7%
Guangdong AirTAC Automatic Industrial Co.	3			Costs of goods sold	16,126	77,518	General terms and conditions	1%
Guangdong AirTAC Automatic Industrial Co.	3			R&D expense	4	19	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Accounts receivable	6,951	33,413	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Accounts payable	5,974	28,717	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Disposal of fixed asset	30	144	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Purchase of fixed asset	77	370	General terms and conditions	-
Jianliang (Shanghai) Trading Co., Ltd.	3			Sales revenue	435,529	2,093,588	General terms and conditions	37%
Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	52	250	General terms and conditions	-		
Jianliang (Shanghai) Trading Co., Ltd.	3	R&D expense	7	34	General terms and conditions	-		

(Continued)

(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
3	Guangdong AirTAC Automatic Industrial Co.	Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	\$ 82,116	\$ 394,732	General terms and conditions	5%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts payable	6	29	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Rent income	289	1,389	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Purchase of fix asset	276	1,327	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Sales revenue	26,452	127,155	General terms and conditions	2%
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	10,353	49,767	General terms and conditions	1%
		AirTAC Industrial Co., Ltd.	3	Non-Operating revenue	78	375	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts receivable	2,298	11,046	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts payable	3,495	16,800	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	2,316	11,133	General terms and conditions	-
		Hong Kong Industrial Co., Ltd.	2	Dividends payable	11,031	53,026	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Sales revenue	9,803	47,123	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Costs of goods sold	879	4,225	General terms and conditions	-
		ATC (Italia) S.R.L	3	Non-operating income	182	875	General terms and conditions	-
		ATC (Italia) S.R.L	3	Accounts receivable	2,637	12,676	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	16,108	77,431	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Non-operating income	22	106	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	79,742	383,320	General terms and conditions	7%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	5,974	28,717	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	6,951	33,413	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Disposal of fix assets	77	370	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Purchase of fix assets	30	144	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	143,064	687,709	General terms and conditions	12%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	82	394	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	9,778	47,003	General terms and conditions	1%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Other payable	20	96	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Non-operating income	120	577	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Sales revenue	15,845	76,167	General terms and conditions	1%
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	280	1,346	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts receivable	1,911	9,186	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts payable	325	1,562	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	2,628	12,633	General terms and conditions	-
ATC (Italia) S.R.L	3	Costs of goods sold	342	1,644	General terms and conditions	-		
ATC (Italia) S.R.L	3	Accounts receivable	1,264	6,076	General terms and conditions	-		
AirTAC(China) Co.	3	Accounts receivable	7,910	38,023	General terms and conditions	-		
AirTAC(China) Co.	3	Sales revenue	55,564	267,096	General terms and conditions	5%		

(Continued)

(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
4	AirTAC Industrial Co.	AirTAC International Group	2	Technical service income	\$ 3,653	\$ 17,560	General terms and conditions	-
		AirTAC International Group	2	Other receivable	959	4,610	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	10,353	49,767	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	26,530	127,530	General terms and conditions	2%
		Ningbo AirTAC Automatic Industrial Co.	3	Non-operating income	2,316	11,133	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	918	4,413	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Other receivable	2,577	12,387	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	2,298	11,046	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	15,845	76,167	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Non-operating income	280	1,346	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	1,911	9,186	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Other receivable	325	1,562	General terms and conditions	-
		5	Air(Italia)S.R.L	AirTAC International Group	2	Other payable	8,151	39,182
AirTAC International Group	2			Other payable	159	764	General terms and conditions	-
AirTAC International Group	2			Interest expense	177	851	General terms and conditions	-
Ningbo AirTAC Automatic Industrial Co.	3			Sales revenue	879	4,225	General terms and conditions	1%
Ningbo AirTAC Automatic Industrial Co.	3			Costs of goods sold	9,985	47,998	General terms and conditions	-
Ningbo AirTAC Automatic Industrial Co.	3			Accounts payable	2,637	12,676	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Sales revenue	342	1,644	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Costs of goods sold	2,628	12,633	General terms and conditions	-
Guangdong AirTAC Automatic Industrial Co.	3			Accounts payable	1,264	6,076	General terms and conditions	9%
6	AirTAC International Group	Ningbo AirTAC Automatic Industrial Co.	1	Other receivable	153,112	736,009	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Interest receivable	1,411	6,783	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Interest income	3,241	15,579	General terms and conditions	-
		AirTAC Industrial Co.,Ltd.	1	Overhead	3,653	17,560	General terms and conditions	-
		AirTAC Industrial Co.,Ltd.	1	Other payable	959	4,610	General terms and conditions	-
		ATC (Italia) S.R.L	1	Other receivable	8,151	39,182	General terms and conditions	-
		ATC (Italia) S.R.L	1	Interest receivable	159	764	General terms and conditions	-
		ATC (Italia) S.R.L	1	Interest income	177	851	General terms and conditions	-
		Hong Kong AirTAC Industry Co., Ltd.	1	Other receivable	33	159	General terms and conditions	-
		Hong Kong AirTAC Industry Co., Ltd.	1	Dividends receivable	2,394	11,508	General terms and conditions	-
7	Hong Kong AirTAC Industry Co., Ltd.	AirTAC International Group	2	Other receivable	33	159	General terms and conditions	-
		AirTAC International Group	2	Dividends payable	2,394	11,508	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Dividends receivable	11,031	53,026	General terms and conditions	1%

(Continued)



(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
8	AirTAC (China) Ltd.	Ningbo AirTAC Automatic Industrial Co.	3	Overhead	\$ 225	\$ 1,082	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Land-use right	7,947	38,201	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Other receivable	8,092	38,898	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	261	1,255	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	58,343	280,455	General terms and conditions	5%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	7,910	38,023	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	55,564	267,096	General terms and conditions	5%
9	Hong Kong AirTAC Trading Ltd.	Jianliang (Shanghai) Trading Co., Ltd.	1	Dividends receivable	111,370	535,356	General terms and conditions	6%

- Note 1: Parent company to subsidiary.  
2. Subsidiary to parent company.  
3. Subsidiary to subsidiary.

AirTAC International Group and Subsidiaries  
Intercompany Relationships and Significant Transactions  
2011

Table 10

Unit: \$1,000

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
1	Jianliang (Shanghai) Trading Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	\$ 42	\$ 188	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	368,947	1,638,310	General terms and conditions	38%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	15	65	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	30,552	135,677	General terms and conditions	2%
		Ningbo AirTAC Automatic Industrial Co.	3	Operating expense	289	1,285	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	87	384	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	185,393	823,237	General terms and conditions	19%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	42,456	188,527	General terms and conditions	3%
		Guangdong AirTAC Automatic Industrial Co.	3	Other receivable	20	89	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Non-operating expenses	120	533	General terms and conditions	-
2	Ningbo AirTAC Automatic Industrial Co.	Guangdong AirTAC Automatic Industrial Co.	3	Operating expenses	34	152	General terms and conditions	-
		AirTAC Internatioanl Group	2	Other payable	95,551	424,293	General terms and conditions	6%
		AirTAC Internatioanl Group	2	Ohter current liabilities	384	1,704	General terms and conditions	-
		AirTAC Internatioanl Group	2	Non-operating expenses	394	1,750	General terms and conditions	-
		Hong Kong Industrial Co., Ltd.	2	Dividends payable	11,031	48,982	General terms and conditions	1%
		Instant Reach International Limited	2	Sales revenue	728	3,233	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	74,152	329,274	General terms and conditions	8%
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	13,127	58,291	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts receivable	7,802	34,645	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	3,235	14,366	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	368,947	1,638,310	General terms and conditions	38%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	42	188	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	30,552	135,667	General terms and conditions	2%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts payable	15	65	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Non-operating income	289	1,285	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Sales revenue	21,598	95,905	General terms and conditions	2%
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	10,817	48,033	General terms and conditions	1%
		AirTAC Industrial Co., Ltd.	3	Accounts receivable	4,483	19,906	General terms and conditions	-
AirTAC Industrial Co., Ltd.	3	Accounts payable	2,254	10,009	General terms and conditions	-		
ATC (Italia) S.R.L	3	Sales revenue	11,057	49,097	General terms and conditions	1%		
ATC (Italia) S.R.L	3	Accounts receivable	4,876	21,653	General terms and conditions	-		

(Continued)

(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details						
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets		
					RMB	TWD				
3	Guangdong AirTAC Automatic Industrial Co.	Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	\$ 13,127	\$ 58,291	General terms and conditions	1%		
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	74,152	329,274	General terms and conditions	8%		
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	3,235	14,366	General terms and conditions	-		
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	7,802	34,645	General terms and conditions	1%		
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	185,393	823,237	General terms and conditions	19%		
		Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	87	384	General terms and conditions	-		
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	42,456	188,527	General terms and conditions	3%		
		Jianliang (Shanghai) Trading Co., Ltd.	3	Other payable	20	89	General terms and conditions	-		
		Jianliang (Shanghai) Trading Co., Ltd.	3	Non-operating income	154	685	General terms and conditions	-		
		AirTAC Industrial Co., Ltd.	3	Sales revenue	11,781	52,312	General terms and conditions	1%		
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	454	2,016	General terms and conditions	-		
		AirTAC Industrial Co., Ltd.	3	Accounts receivable	1,901	8,443	General terms and conditions	-		
		AirTAC Industrial Co., Ltd.	3	Other payable	339	1,504	General terms and conditions	-		
		ATC (Italia) S.R.L	3	Sales revenue	2,412	10,712	General terms and conditions	-		
		ATC (Italia) S.R.L	3	Accounts receivable	1,098	4,877	General terms and conditions	-		
		4	AirTAC Industrial Co.	Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	10,817	48,033	General terms and conditions	1%
				Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	21,598	95,905	General terms and conditions	2%
Ningbo AirTAC Automatic Industrial Co.	3			Accounts receivable	2,254	10,009	General terms and conditions	-		
Ningbo AirTAC Automatic Industrial Co.	3			Accounts payable	4,483	19,906	General terms and conditions	-		
Guangdong AirTAC Automatic Industrial Co.	3			Sales revenue	454	2,016	General terms and conditions	-		
Guangdong AirTAC Automatic Industrial Co.	3			Costs of goods sold	11,781	52,312	General terms and conditions	1%		
Guangdong AirTAC Automatic Industrial Co.	3			Other receivable	339	1,504	General terms and conditions	-		
Guangdong AirTAC Automatic Industrial Co.	3			Accounts payable	1,901	8,443	General terms and conditions	-		
ATC (Italia) S.R.L	3			Sales revenue	192	851	General terms and conditions	-		
ATC (Italia) S.R.L	3			Other receivable	1	3	General terms and conditions	-		
5	ATC (Italia) S.R.L	AirTAC Internatioanl Group	2	Other payable	17,514	77,769	General terms and conditions	1%		
		Instant Reach International Ltd.	2	Costs of goods sold	1,105	4,908	General terms and conditions	-		
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	11,057	49,097	General terms and conditions	1%		
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	4,876	21,653	General terms and conditions	-		
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	2,412	10,712	General terms and conditions	-		
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	1,098	4,877	General terms and conditions	-		
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	192	851	General terms and conditions	-		
		AirTAC Industrial Co., Ltd.	3	Other payable	1	3	General terms and conditions	-		

(Continued)

(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
6	Instant Reach International Ltd.	Ningbo AirTAC Automatic Industrial Co.	1	Costs of goods sold	\$ 728	\$ 3,233	General terms and conditions	-
		ATC (Italia) S.R.L	1	Sales revenue	1,105	4,908	General terms and conditions	-
7	AirTAC International Group	Ningbo AirTAC Automatic Industrial Co.	1	Other receivable	95,551	424,293	General terms and conditions	6%
		Ningbo AirTAC Automatic Industrial Co.	1	Interests receivable	384	1,704	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Non-operating income	394	1,750	General terms and conditions	-
		ATC (Italia) S.R.L	1	Other payable	17,514	77,769	General terms and conditions	1%
		Hong Kong Industrial Co. Ltd.	1	Other payable	6,888	30,587	General terms and conditions	-
8	Hong Kong Industrial Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	1	Dividends receivable	11,031	48,982	General terms and conditions	1%
		AirTAC International Group	2	Other receivable	6,888	0,587	General terms and conditions	-

Note: 1.Parent company to subsidiary.

2. Subsidiary to parent company.

3. Subsidiary to subsidiary.

Appendix 2 Major Differences between the Company’s Article of Incorporation and ROC Regulations on Shareholder Protection

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company’s Articles of Association and Reasons
1	A shareholder who has (have) continuously held 3% or more of the total number of outstanding shares for a period of one year or a longer time may, by filing a written proposal setting forth therein the subjects for discussion and the reasons, request the board of directors to call a special meeting of shareholders. If the board of directors fails to give a notice for convening a special meeting of shareholders within 15 days after the filing of the request, the proposing shareholder(s) may, after obtaining an approval from the competent authority, convene a special meeting of shareholders on his/their own.	Paragraphs 1 and 2, Article 173 of Company Act	Pursuant to the letter of Taiwan Stock Exchange No. Tai-Zhen-Shang-Zi-0991701319 dated 2010.04.13, “Explanation 2 (3): To the extent that the laws of the place of registration are not contradicted, a foreign issuer may remove the part of “obtaining an approval from the competent authority” from the clause on the right of minority shareholders to call a special shareholders’ meeting in the articles of association. Thus Section 16.8 of the Company’s Articles of Association provides: “If the Directors do not within fifteen days from the date of the deposit of the requisition dispatch the notice of an extraordinary general meeting, the requisitions may themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules.”
2	In case the procedure for convening a shareholders’ meeting or the method of adopting resolutions thereat is in contrary to any law, ordinance or the company’s articles of association, a shareholder may enter a petition in the court for annulment of such resolution and request that Taiwan Taipei District Court be the court of jurisdiction for the first instance.	Article 189 of Company Act	Section 18.7 of the Company’s Articles of Association provides: “Nothing in the Articles shall present any Member from issuing proceedings in a court of competent jurisdiction for an appropriate remedy in connection with the improper convening of any general meeting or the improper passage of any resolution. The Taipei District Court, R.O.C. shall be the court of the first instance for adjudicating any disputes arising out of the foregoing.” The aforementioned provision differs slightly from the clause on shareholder protection on the left. The clause on the left touches on shareholder’s right to request annulment of a resolution, while the articles of association cannot achieve such legal effect. The right of a shareholder to request annulment of a resolution can only be granted by law. Although the provisions in Section 18.7 of the Company’s Articles of Association differ slightly from the clause on shareholder protection on the left, the Articles of Association do not exclude the right of a shareholder to institute a proceeding or seek relief from a court when the procedure for convening a shareholders’ meeting or the method for adopting a resolution runs counter to law or the Articles of Association. As to whether the court of jurisdiction would annul the convening procedure or a shareholders’ resolution that violates law or the Company’s Articles of Association, the court (whether a Cayman Islands court or ROC court or a court of jurisdiction in another country) will deliberate whether the applicable law gives shareholders the right to institute such as lawsuit and make judgment

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
			by its vested authority. The difference arises from the nature of shareholder's right to request annulment of resolution and the Company's Articles of Association do not restrict the right of shareholders to file a lawsuit or seek relief from a court."
3	<p>A company shall not do any of the following acts without a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. If the total number of shares represented by shareholders present at a shareholders' meeting is not sufficient to meet the criteria specified above, the resolution may be adopted by two-thirds of the votes of the shareholders present at a shareholders' meeting who represent a majority of the total number of issued shares:</p> <ol style="list-style-type: none"> <li>1. Enter into, amend, or terminate any contract for lease of the company's business in whole, or for entrusted business, or for regular joint operation with others; accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company.</li> <li>2. Modify Articles of Association.</li> <li>3. Where amendment to the Articles of Association injures the rights of preferred stockholders, resolution adopted by preferred stockholders is also required.</li> <li>4. Distribute dividends or bonus in whole or in part, by issuing new shares.</li> <li>5. A resolution on dissolution, merger or split.</li> <li>6. Private placement of securities.</li> </ol>	<ol style="list-style-type: none"> <li>1 Article 185 of Company Act.</li> <li>2 Article 209 of Company Act.</li> <li>3 Article 227 of Company Act.</li> <li>4 Article 277 of Company Act.</li> <li>5 Paragraph 1, Article 240 of Company Act.</li> <li>6 Article 316 of Company Act.</li> <li>7 Article 436 of Securities and Exchange Act.</li> </ol>	<ol style="list-style-type: none"> <li>1. Section 1.1 of the Company's Articles of Association               <ol style="list-style-type: none"> <li>(1) Provisions in the Company's Articles of Association:                   <p>According to Section 1.1 of the Company's Articles of Association, a special resolution means "a resolution that has been passed by a majority of not less than two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given." According to the Cayman Islands legal opinions, matters that require special resolution include but are not limited to: (i) change the company name; (ii) alter or add to articles of association; (iii) alter articles of association with respect to any objects, powers or other matters specified therein; (iv) reduce share capital and any capital redemption reserve; and (v) wind up voluntarily for reasons other than that the company is unable to pay its debts as they fall due. Section 18.1 of the Company's Articles of Association provides: "No business shall be transacted at a general meeting unless a quorum is present. Unless otherwise provided in the Articles, Members present in person or by proxy, representing more than one-half of the total outstanding Shares, shall constitute a quorum for any general meeting." That is, a special resolution may be adopted at a shareholders' meeting attended by shareholders representing the majority of shares issued and outstanding in person or by proxy, and in which at least two-thirds of the votes cast by the shareholders present (including shareholders present by proxy) are in favor of the resolution.</p> </li> <li>(2) Reasons for differences                   <p>According to the Cayman Islands legal opinions, special resolution is provided in the Cayman Islands Companies Law, and according to which, a matter that requires special resolution shall be decided by the shareholders in accordance with the articles of association, and</p> </li> </ol> </li> </ol>

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
			<p>any resolution adopted by shareholders lower than the threshold for special resolution is deemed invalid according to the Cayman Islands Companies Law. Thus in the Company's Articles of Association concerning important shareholder protection matters that require special (supermajority) resolution, those that require special resolution in accordance with the Cayman Islands Companies Law are kept as "special resolution" items, while the other shareholder protection matters are added to the Articles of Association as requiring "special (supermajority) resolution."</p> <p>2. Section 14.3 of the Company's Articles of Association</p> <p>(1) Provisions in the Company's Articles of Association:  Section 14.3 of the Company's Articles of Association provides: "Subject to the provisions of the Statute, the provisions of these Articles, and the quorum requirement under the Applicable Public Company Rules, with regard to the dissolution procedures of the Company, the Company shall pass (a) an Ordinary Resolution, if the Company resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due; or (b) a Special Resolution, if the Company resolves that it be wound up voluntary for reasons other than the reason stated in Article 14.3(a) above." This section differs from the shareholder protection clauses on the left in the different requirement of "ordinary resolution" and "special resolution." In comparison, the shareholder protection matters on the left all require "special (supermajority) resolution."</p> <p>(2) Reasons for differences:  According to the Cayman Islands legal opinions, the Cayman Islands Companies Law provide that a company may be wound up voluntarily by special resolution for reasons other than being unable to pay its debts as they fall due, and may be wound up voluntarily by ordinary solution for reason of being unable to pay its debts as they fall due. Thus the difference arises out of the laws of Cayman Islands. Although the lower threshold of ordinary resolution is in place that "a company may wind up voluntarily by ordinary resolution when it is unable to pay its debts as they fall due, such is the law of Cayman Islands and applies only to specific</p>

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
			circumstances.
4	In case a director has, in the course of performing his/her duties, committed any act resulting in material damages to the company or in serious violation of applicable laws and/or regulations, but not discharged by a resolution of the shareholders' meeting, the shareholder(s) holding 3% or more of the total number of outstanding shares of the company may, within 30 days after that shareholders' meeting, institute a lawsuit in the court for a judgment in respect of such matter, and request that Taiwan Taipei District Court be the court of jurisdiction for the first instance.	Article 200 of Company Act	<p>(1) Provisions in the Company's Articles of Association: Section 28 (i) of the Company's Articles of Association provides: "In the event that a director has, in the course of performing his duties, committed any act resulting in material damage to the Company or in serious violation of applicable laws and/or regulations or the Memorandum and the Articles, but has not been removed by the Company pursuant to a Supermajority Resolution vote, then any Member(s) within thirty days after the general meeting, to petition any competent court for the removal of such Director, at the Company's expense and such Director shall be removed upon the final judgment by such court. For clarification, if a relevant court has competent jurisdiction to adjudicate all of the foregoing matters in a single or a series of proceedings, then, for the purpose of this paragraph (i), final judgment shall be given by such competent court." This section differs slightly from the shareholder protection clauses on the left.</p> <p>(2) Reasons for differences: A Cayman Islands court will not acknowledge any foreign court ruling on matters other than a monetary judgment without actually trying the dispute. Thus even if the shareholder protection clauses on the left are incorporated into the Company's Articles of Association, any ruling made by the court of jurisdiction in Taiwan on discharging a director may not be directly acknowledged and enforced by the Cayman Islands court. Thus the Company's Articles of Association provides that shareholders should institute such lawsuit in the court of jurisdiction. The difference arises from the acknowledgment and enforcement of foreign judgments according to Cayman Islands laws. However shareholders may still seek the discharge of a director according to the procedure set out in the Articles of Association.</p>
5	(一) Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China.	Articles 216-222 of Company Act	Pursuant to the front section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules for Review of Securities Listings, "A foreign issuer may elect to set up an audit committee or the position of supervisor." The Company has set up an audit committee composed of all independent



	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
	<p>(二) The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election.</p> <p>(三) In case all supervisors of a company are discharged, the board of directors shall, within 30 days, convene a special meeting of shareholders to elect new supervisors.</p> <p>(四) Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company examine the accounting books and documents, and request the board of directors or managerial personnel to make reports thereon.</p> <p>(五) Supervisors shall audit the various statements and records prepared for submission to the shareholders' meeting by the board of directors, and shall make a report of their findings and opinions at the meeting of shareholders.</p> <p>(六) In performing audit, the supervisors may appoint, on behalf of the company, a practicing lawyer and a certified public accountant to conduct the examination.</p> <p>(七) Supervisors may attend the meeting of the board of directors to state their opinions. In case the board of directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Association or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the board of directors or the director, as the case may be, to cease such act.</p> <p>(八) Supervisor may each exercise the supervision power individually.</p> <p>(九) A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p>		<p>directors of the Company and hence is not required to elect supervisors. Hence the shareholder protection measure on the left is not incorporated into the Company's Articles of Association.</p>

**AirTAC International Group**

**Chairman: Wang Shih-Chung**