



AirTAC International Group

# Annual Report 2010

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For related information, please go to:

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

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

**Spokesperson and Deputy Spokesperson**

	Spokesperson	Deputy Spokesperson
Name	Tsao Yung-Hsiang,	Lin Chiang-Ti
Title	Chief Financial Officer	Group Special Assistant
TEL	(886) 2-2269-7766	(86) 574-8895-0001
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**Headquarters and Subsidiaries**

## 1. Company information

Name: AirTAC International Group

Address: PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands  
TEL: (86) 574-8895-0001Website: <http://www.airtacworld.com>

## 2. Headquarters

Name: AirTAC International Group

Address: No. 1, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China  
TEL: (86) 574-8895-0001Website: <http://www.airtacworld.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)574-8895-0001Website: <http://www.airtacworld.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)574-8895-0001Website: <http://www.airtacworld.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)574-8895-0001Website: <http://www.airtacworld.com>

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

Address: No. 1, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China  
TEL: (86) 574-8895-0001Website: <http://www.airtacworld.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) 20-3647-0760Website: <http://www.airtacworld.com>

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

Address: F6, No. 58, Xiangcheng Rd, Pudong New District, Shanghai, China  
TEL: (86) 21-6840-6655Website: <http://www.airtacworld.com>

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

Address: 23 Ziyou Road, Tucheng City, Taipei County

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

TEL: (886)2- 2269-7766

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

Address: Via San Vittore 16, 20123 Milano, Italy

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

TEL: (39) 0331-307204

**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: Jacky M. Chen and K.W. Lai

Office: Deloitte &amp; 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.airtacworld.com>****Roster of Directors**

Title	Name	Nationality	Experience
Chairman	Wang Shih-Chung	Taiwan	Chairman of AirTAC International Group
Director	Gordon Shaw	Taiwan	Managing Director of Baring Private Equity Asia
Director	Lan Shun-Cheng	Taiwan	President of AirTAC International Group
Director	Wang Hai-Ming	China	Vice Chairman of Ningbo AirTAC
Director	Lin Chiang-Ti	Taiwan	President of Ningbo AirTAC
Director	Wang Hong-Bing	China	Vice President of Jianliang (Shanghai) Trading
Independent Director	Chang Bao-Guang	Taiwan	Assistant Professor of Accounting, Tamkang University
Independent Director	Chiang Chih-Chun	Taiwan	Arbitrator of Arbitration Association of the Republic of China
Independent Director	Leong Kam-Son	Malaysia	President of Asia/Pacific Operations of York International Corporation

**Designated Domestic Agent**

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

## **TABLE OF CONTENTS**

---

1. Letter to Shareholders
2. Company Overview
3. Corporate Governance Report
  - 3.1 Organizational Structure
  - 3.2 Information on Directors, Supervisors and Management
  - 3.3 Implementation of Corporate Governance
  - 3.4 Information on CPA Professional Fees
  - 3.5 Information on Changes of CPA
  - 3.6 Employment of Company's Chairman, President, Managerial Officers in Charge of Finance or Accounting at the Auditing CPA Firm or Its Affiliates in the Most Recent Year
  - 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
  - 3.8 Information on Top 10 Shareholder Relationships According to Statement of Financial Accounting Standards No. 6
  - 3.9 Shares of Same Enterprise Held by the Company, Company's Directors, Supervisors, Managers and Enterprises Directly or Indirectly Controlled by the Company and Combined Shareholding
4. Capital Raising Overview
  - 4.1 Capital and Shares
  - 4.2 Issuance of Corporate Bonds
  - 4.3 Issuance of Preferred Shares
  - 4.4 Issuance of Global Depositary Receipts (GDR)
  - 4.5 Employee Stock Options
  - 4.6 Issuance of New Shares for Acquisition or Assignment
  - 4.7 Use of Proceeds
5. Operational Highlights
  - 5.1 Business Overview
  - 5.2 Market, Production and Sales Overview

5.3 Employees of Past Two Years and Up to the Date of Annual Report

5.4 Environmental Expenditures

5.5 Labor-Management Relations

5.6 Material Contracts

## 6. Financial Highlights

6.1 Condensed Balance Sheets and Statements of Income (2006 ~ 2010)

6.2 Financial Analysis (2006 ~ 2010)

6.3 Audit Committee Report

6.4 CPA-Audited Financial Statements of Parent Company and Subsidiaries

6.5 CPA-Audited Consolidated Financial Statements

6.6 Financial Difficulties and Corporate Events Encountered by the Company  
and Affiliates

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

7.1 Analysis of Financial Status

7.2 Analysis of Operating Performance

7.3 Cash Flows Analysis

7.4 Major Capital Spending

7.5 Investment Policy

7.6 Risk Management

7.7 Other Material Events

## 8. Special Notes

8.1 Profile of Subsidiaries and Affiliates

8.2 Private Placement Activities

8.3 Holding or Disposal of Company Stocks by Subsidiaries

8.4 Other Supplemental Information

8.5 Corporate Events with Material Impact on Shareholders' Equity or Stock  
Prices Set forth in Subparagraph 2, Paragraph 2, Article 36 of Securities  
Exchange Act in the Most recent fiscal year and up to the Date of Annual  
Report

8.6 Major Differences in the Company's Articles of Association and ROC  
Regulations on Shareholder Protection

Appendix 1

Appendix 2

## 1. Letter to Shareholders

Dear Shareholders,

### 1.1 Foreword

After more than 20 years of toil and hardship in Taiwan and China, AirTAC has evolved from a business operating in a shabby low-rise building with a few employees to a group enterprise with 2,800 employees, three production bases and close to 70 sales offices worldwide. In the process, AirTAC has moved forward with caution in every step of the way. AirTAC was successfully listed on Taiwan Stock Exchange on December 13, 2010 after several years of planning and efforts. Thanks to the firm support of shareholders, AirTAC did not lay off people or cut employee pay in 2008 or 2009 during the global financial crisis. Instead, AirTAC spent more money on employee education and training and client development, and focused on the upgrade of process technologies and operating efficiency. When the global economy rebounded in 2010, AirTAC was prepared for the arrival of large orders. And thanks to the concerted efforts of all employees, AirTAC achieved record high consolidated revenue and earnings in 2010.

### 1.2 2010 Business Overview:

#### (1) Business performance

In 2010, AirTAC reported consolidated revenue of TWD 4,299,093,000, an increase of TWD 1,437,565,000 or 50.24% as compared to the revenue of TWD 2,861,528,000 in 2009. Our consolidated net income after tax amounted to TWD 1,049,947,000, growing TWD 499,732,000 or 90.82% as compared to net income of TWD 550,215,000 in 2009. The earnings per share in 2010 were TWD 7.76, and the net worth per share was TWD 30.22 with stockholders' equity of TWD 4,533,095,000. To sum up, the Group's 2010 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 2010, our consolidated non-operating income amounted to TWD 75,794,000, which was increased by TWD 30,459,000 or 67.19% as compared to TWD 45,335,000 in 2009. The increase is attributed primarily to the appreciation of RMB and TWD against the U.S. dollar, which resulted in increase in recognized exchange gain of TWD 35,986,000 as compared to 2009. Our 2010 consolidated non-operating expense was TWD 53,843,000, which was decreased by TWD 26,903,000 or 33.32% as compared to TWD 80,746,000 in 2009, mainly due to decrease in interest expense of TWD 11,053,000 and decrease in exchange loss of TWD 14,501,000 as compared to 2009. In addition, our 2010 return on assets was 19.64% and our return on stockholders' equity in the year was 30.12%.

#### (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 the past two years. We plan to roll out about ten series of new products every year in the next three years to expand the breadth of our product lines by more than 100%. Aside from new product R&D, we also spend heavily on production automation and process improvement to enhance our competitiveness. Our 2010 R&D expenditure amounted to TWD 103,805,000, accounting for 2.41% of the year's consolidated revenue, and increasing by TWD 16,300,000 or 18.63% as

compared to TWD 87,505,000 in 2009. 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 2011 Business Plan:

For 2011, we will budget 320 million RMB for capital expenditure. Besides capacity expansion, we plan to launch about 10 series of new products. We also plan to increase the number of sales offices in China from 31 at the end of 2010 to 50 in 2011. As for the expansion of overseas operations, we will establish the Southeast Asia headquarters and a basic processing plant in Singapore and set up sales offices in Singapore and Thailand in the latter half of 2011 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 2011 sales will grow at least 30% from 2010.

Industrial automation systems advance rapidly. Staying put means falling behind. Thus AirTAC believes in constant preparedness for challenges and always seeking innovation. 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. After striving through years of struggle with perseverance and growth, AirTAC is now more mature, steadfast and confident. We believe that with the full support of our 2,800 strong colleagues around the world and shareholders, AirTAC will become an indispensable and pivotal force 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

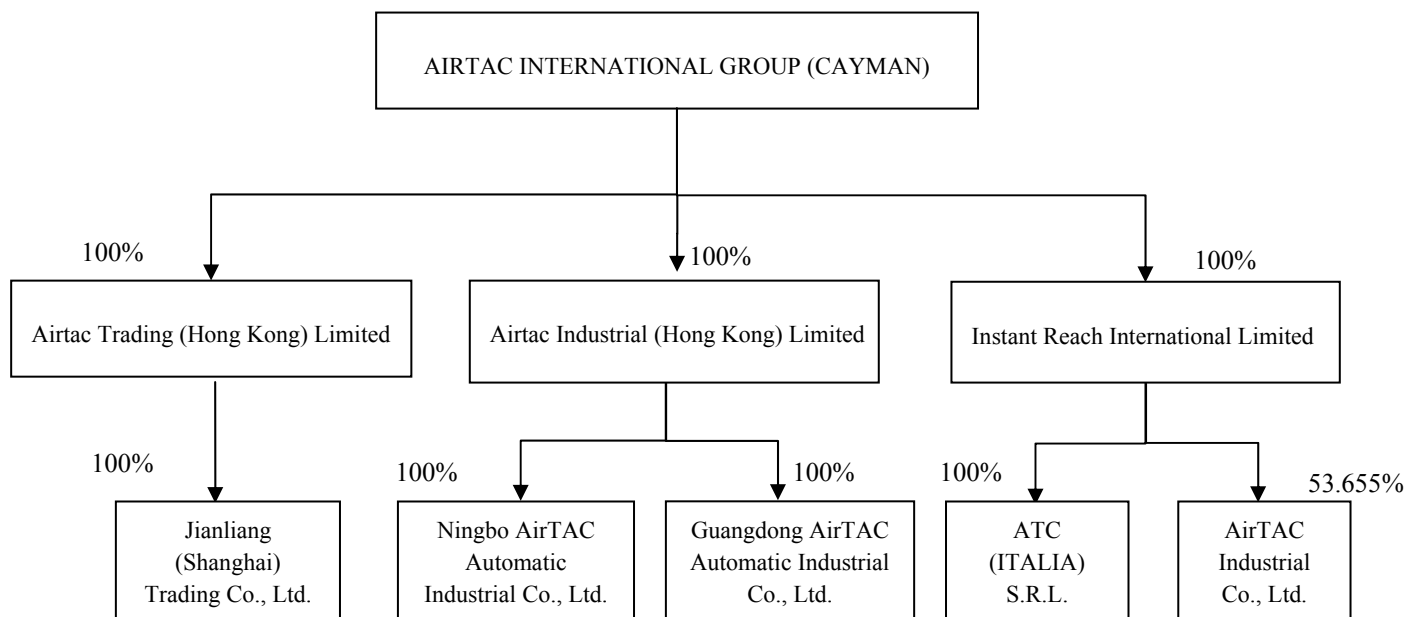
### 2.1 Company Introduction

#### 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 of valve products, including solenoid valve, pneumatic valve, manual value, hand-draw valve, mechanical valve, and throttle valve. Ningbo AirTAC Automatic Industrial Co. 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.

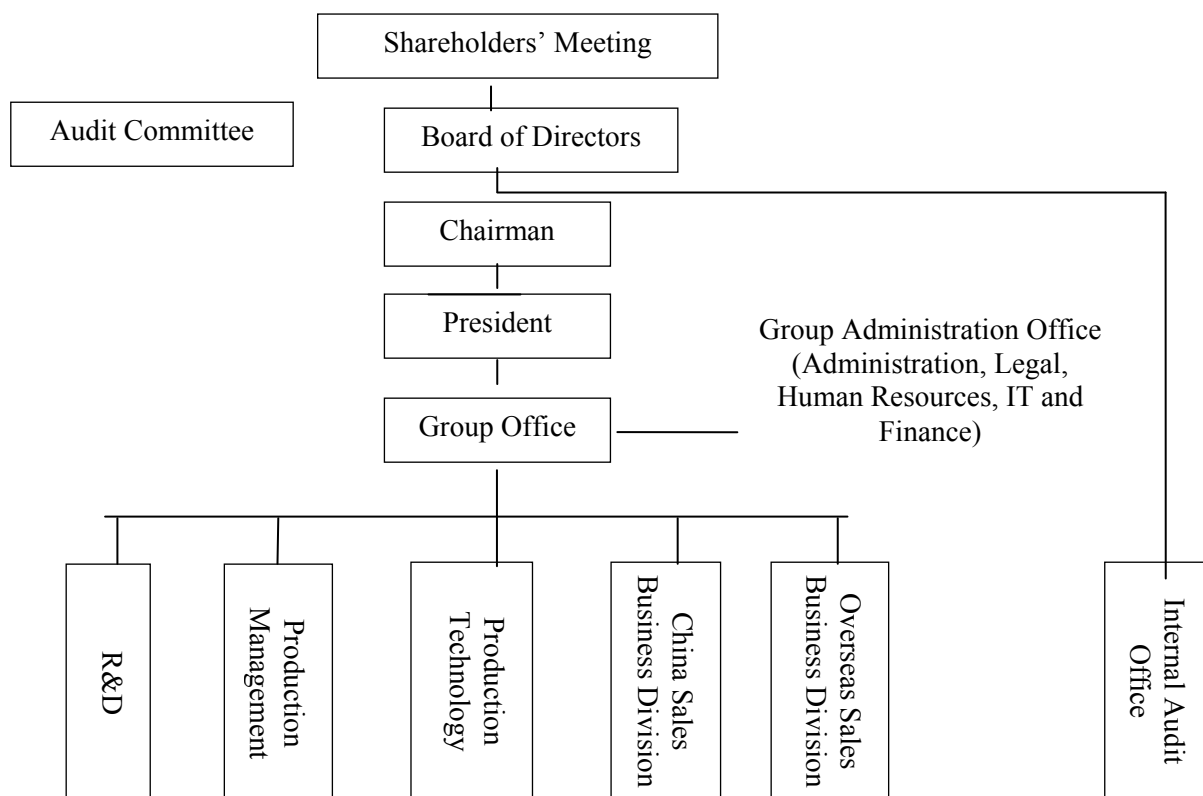
2.3 Risks: Please see section on Financial Status, Operating Performance and Risk Evaluation.



### 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 11, 2011 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	—	—	—	—	3,746,357	2.50	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.	—	—	—
Director	Wang Hai-Ming	2010/04/17	3 years	2009/12/24	—	—	—	—	1,118,687	0.75	10,432,850	6.95	* Vice Chairman of Ningbo Airtac	* Director of Ningbo AirTAC Automatic Industrial Co. * Director of Jianliang (Shanghai) Trading Co. * Director of Guangdong AirTAC Automatic Industrial Co.	—	—	—
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. * Supervisor of Jianliang (Shanghai) Trading Co. * Director of Guangdong AirTAC Automatic Industrial Co., Ltd.	—	—	—
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. * Director of Jianliang (Shanghai) Trading Co.	—	—	—
Independent director	Chang Bao-Guang	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	* Assistant Professor of Accounting, Tamkang University	* Assistant Professor of Accounting, Tamkang University * Independent Director of Datavan Co. * Supervisor of United Alloy-Tech Co.	—	—	—
Independent director	Chiang Chih-Chun	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	* Arbitrator of Arbitration Association of the Republic of China	* Associate of Latham & Watkins LLP	—	—	—
Independent director	Leong Kam-Son	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	* President of Asia/Pacific Operations of York International Corporation	* Independent Director of Fluidra, S.A. * Chairman of Vast Lava * Director of HL Partners	—	—	—

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

Note 2: Managing Director of Baring Private Equity Asia, Director of Jianliang (Shanghai) Trading Co., Supervisor of Ningbo AirTAC Automatic Industrial Co., Supervisor of Guangdong AirTAC Automatic Industrial Co., and Supervisor of AirTAC Industrial Co.

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	Has at least 5 years of work experience and meet one of the following professional qualifications			Meet the independence criteria (Note)										Number of other public companies in which the director also serves as an independent director
		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	10	
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	▪ Sales head of Ta Phong Trading	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, 4	—	—	—
President of Guangdong AirTAC	Lin Yong-Feng	2009.11.17	2,909,581	1.94	—	—	—	—	▪ Production VP of Ningbo AirTAC	Note 3	—	—	—
President of Taiwan AirTAC	Yang Kuo-Yi	2009.05.01	—	—	—	—	—	—	▪ Administrative VP of Ningbo AirTAC ▪ VP of Kunshan Baiheng Photoelectric	Note 5	—	—	—
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	Note 4	—	—	—
Vice President of Jianliang (Shanghai)	Wang Hong-Bing	2008.07.01	—	—	—	—	—	—	▪ VP of Jianliang (Shanghai)	Note 6	—	—	—
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 ▪ Auditing assistant manager of Deloitte Taiwan	—	—	—	—
Chief Audit officer	Lin Chian-Ming	2009.12.24	63,000	0.04	—	—	—	—	▪ Assistant manager of Cashbox (Shanghai) Audit Office ▪ Consultant to Enterprise Management Department of Deloitte & Touche	—	—	—	—

Note 1: Director of AirTAC International Group and Director of AirTAC Industrial Co.

Note 2: Director of AirTAC International Group, Director of ATC (ITALIA) S.R.L, Director of Ningbo AirTAC Automatic Industrial Co., Director of Guangdong AirTAC Automatic Industrial Co. and Director of Jianliang (Shanghai) Trading Co.

Note 3: Director of Ningbo AirTAC Automatic Industrial Co., Director of Guangdong AirTAC Automatic Industrial Co. and Supervisor of Jianliang (Shanghai) Trading Co.

Note 4: Former President of Jianliang (Shanghai) Sun Po resigned at the end of 2010. His position has been taken over by President of Ningbo AirTAC took over the position of president Lin Chiang-Ti, and former Executive VP of Ningbo (Shanghai) is promoted to the position of president.

Note 5: Director of AirTAC Industrial Co.

Note 6: Director of AirTAC International Group and Director of Jianliang (Shanghai) Trading Co.

### 3.2.3 Remunerations to directors, supervisors, president, and vice presidents in recent years

#### (1) Remuneration of directors (including independent directors)

In TWD 1,000

Title	Name	Director's remuneration								Ratio of total (A), (B), (C), and (D) to after-tax income (%)		Pay received as an employee								Ratio of total (A), (B), (C), (D), (E), (F) and (G) to after-tax income		Remuneration received from investees other than subsidiaries
		Remuneration (A)		Pension (B)		Profit sharing (C)		Business expense (D)				Salary, bonus and special allowance (E)		Pension (F)		Profit sharing & bonus (G)						
		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	AirTAC International		All companies in consolidated statements		AirTAC International	All companies in consolidated statements			
														Cash bonus	Stock bonus	Cash bonus	Stock bonus					
Chairman	Wang Shih-Chung	—	5,267	—	—	—	—	106	—	0.51%	2,992	—	—	—	—	9,325	—	—	—	1.68 %	-	
Director	Gordon Shaw																					
Director	Lan Shun-Cheng																					
Director	Wang Hai-Ming																					
Director	Lin Chiang-Ti																					
Director	Wang Hong-Bing																					
Independent Director	Chang Bao-Guang																					
Independent Director	Chiang Chih-Chun																					
Independent Director	Leong Kam-Son																					

Note 1: Lin Chiang-Ti, Wang Hong-Bing, Chang Bao-Guang, Chiang Chih-Chun and Leong Kam-Son were elected on 2010.4.17.

Note 2: Lan Shun-Cheng is the director of AirTAC International Group and AirTAC Taiwan, and was appointed the Company's president on 2009.12.24.

Note 3: Lin Chiang-Ti is the director of AirTAC International Group, ATC (ITALIA) S.R.L., Ningbo AirTAC Automatic Industrial Co., Guangdong AirTAC Automatic Industrial Co. and Jianliang (Shanghai) Trading Co., and was transferred from the position of president of Ningbo AirTAC Automatic Industrial Co. to the president of Jianliang (Shanghai) Trading Co. on 2011.1.1.

Note 4: Wang Hong-Bing acts as the VP of Jianliang (Shanghai) as well as the director of AirTAC International Group and Jianliang (Shanghai) Trading Co.

Note 5: According to law, for directors who also work as an employee (including the position of president, vice president, other managerial officers and staff) and receive employee bonus (including stock bonus and cash bonus) in the most recent year, disclose projected amount of employee bonus to be distributed to such directors according to the earnings distribution proposal for the most recent year that has been approved by the board of directors but not yet proposed in the shareholders' meeting.

Remuneration Table

Remuneration to respective director	Name of director			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	AirTAC International	All companies in consolidated statements	AirTAC International	All companies in consolidated statements
< \$2,000,000	—	Wang Shih-Chung, Gordon Shaw, Lan Shun-Cheng, Wang Hai-Ming, Lin Chiang-Ti, Wang Hong-Bing, Chang Bao-Guang, Chiang Chih-Chun, Liang Ching-Shian	—	Gordon Shaw, Wang Hong-Bing, Chang Bao-Guang, Chiang Chih-Chun, Liang Ching-Shian
\$2,000,000 ~ <\$5,000,000	—	—	—	Lan Shun-Cheng, Wang Hai-Ming, Lin Chiang-Ti
\$5,000,000 ~ <\$10,000,000	—	—	—	Wang Shih-Chung
\$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	—	23,627	—	—	—	5,973	—	—	20,204	—	—	4.74%	—	—	-
President of Ningbo AirTAC	Lin Chiang-Ti															
President of Guangdong AirTAC	Lin Yong-Feng															
President of Jianliang (Shanghai)	Sun Bo															
President of AirTAC Taiwan	Yang Kuo-Yi															
President of ATC (Italia)	Wang Shih-Chung															
Executive VP of Ningbo AirTAC	Li Hui-Wen															
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
\$2,000,000 ~ <\$5,000,000	—	Yang Kuo-Yi, Wang Hong-Bing
\$5,000,000 ~ <\$10,000,000		Lin Chiang-Ti, Lin Yong-Feng, Wang Shih-Chung, Li Hui-Wen
\$10,000,000 ~ <\$15,000,000	—	Sun Po
\$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	8 persons

## (4) Names of managers receiving employee bonus

April 11, 2011

	Title	Name	Stock bonus	Cash bonus	Total	Ratio of total bonus to after-tax income (%)
Manager	President of Ningbo AirTAC	Lan Shun-Cheng	—	22,425	22,425	2.14%
	President of Guangdong AirTAC	Lin Chiang-Ti				
	President of Jianliang (Shanghai)	Lin Yong-Feng				
	President of AirTAC Taiwan	Sun Po				
	President of ATC (Italia)	Yang Kuo-Yi				
	Executive VP of Ningbo AirTAC	Wang Shih-Chung				
	VP of Jianliang (Shanghai)	Li Hui-Wen				
	President of Ningbo AirTAC	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	2009		2010	
	Amount	%	Amount	%

Director	14,255	2.59%	17,690	1.68%
President and vice presidents	22,802	4.14%	49,804	4.74%
Consolidated profit	550,215	100.00%	1,049,947	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 8 meetings in 2010. 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	8	0	100%	—
Director	Gordon Shaw	8	0	100%	—
Director	Lan Shun-Cheng	8	0	100%	—
Director	Wang Hai-Ming	8	0	100%	—
Director	Lin Chiang-Ti	7	0	100%	Newly elected on 2010.04.17
Director	Wang Hong-Bing	7	0	100%	Newly elected on 2010.04.17
Director	Sun Bo	0	0	0%	Resigned on 2010.04.17
Independent director	Chang Bao-Guang	7	0	100%	Newly elected on 2010.04.17
Independent director	Chiang Chih-Chun	6	1	86%	Newly elected on 2010.04.17
Independent director	Leong Kam-Son	7	0	100%	Newly elected on 2010.04.17

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 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: None.
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 5 meetings in 2010. 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	5	0	100%	Newly elected on 2010.04.17
Independent director	Chiang Chih-Chun	5	0	100%	Newly elected on 2010.04.17
Independent director	Leong Kam-Son	5	0	100%	Newly elected on 2010.04.17
Notes:					
<p>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.</p> <p>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.</p> <p>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.</p>					

### 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
1. Equity structure and shareholders' equity (1) Handling shareholders' suggestions and disputes (2) Major shareholders in actual control and the ultimate controller of major shareholders (3) The risk-control mechanism and the firewall with the affiliated enterprises	(1) Staff is assigned and an e-mail box is set up to handle suggestions and disputes of the shareholders. (2) Staff is assigned to manage related information so the list of major shareholders and final decision-makers is available at all times. (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.	No major difference  No major difference  No major difference
2. Composition and responsibility of the board of directors (1) Independent directors (2) Regular assessment of the independence of CPA	(1) The Company has three seats on the board for independent director. (2) The Company appoints CPAs from reputable accounting firm as certifying CPAs who are not a stakeholder of the Company and maintain their independence.	No major difference  No major difference

Title	Status of Operations	Departure from Corporate Governance Practice Principles for TWSE/GTSM Listed Companies and Reasons
3. Communications with related parties	Staff is assigned and an e-mail box is set up to handle public relations and the affairs of stakeholders.	No major difference
4. Disclosure of information (1) A website to disclose financial and corporate governance information  (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)	(1) The Company reports required information in a timely manner according to applicable regulations and the path designated by Financial Supervisory Commission.  (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.	No major difference  No major difference
5. Operations of nomination, salary or other functional committees set up by the Company	The Company has established an audit committee and will set up other functional committees in view of needs.	No major difference
1. 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.		
2. 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.		
3. 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: None.

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>(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</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>(3) Establishment of a dedicated unit or assign dedicated personnel for environment 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>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 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>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</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>(3) Drafting and making public consumer policy and establishing a clear and effective procedure for accepting consumer complaints</p> <p>(4) Cooperating with suppliers to jointly foster a stronger sense of corporate social responsibility</p> <p>(5) Participation in community development and charity work through commercial activities, non-cash donation, volunteer service or other free professional services</p>	<p>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 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> <p>(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.</p> <p>(5) The Company’s participation in community development and charity work embraces the following three themes:  A. Sunshine Actions  AirTAC holds regular “Sunshine Actions” activities, organizing colleagues to visit underprivileged people living in charity homes.  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;  b. AirTAC donated money to Datong Children’s Home to help provide early intervention services to pre-schoolers with delayed development and handicapped children;  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>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>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 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 Linquan 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. Education projects</p> <p>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</p>	



Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	<p>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 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 11, 2011

The Company states the following with regard to its internal control systems for 2010 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, 2010 (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 11, 2010, 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: None.

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	2010/4/15	<ol style="list-style-type: none"> <li>1. Passed the place and agenda for the first special shareholders' meeting in 2010.</li> <li>2. Approved the 2009 unaudited financial statements, 2010 Q1 unaudited financial statements, and updated 2010 financial forecast.</li> <li>3. Passed the proposal to convert the face value of capital stocks from USD to TWD and increase the Company's authorized capital.</li> <li>4. Passed the Company's Rules for Conduct of Shareholders' Meetings, Rules for the Election of Directors, and Organic Rules of Audit Committee.</li> <li>5. Passed the application for listing in Taiwan.</li> <li>6. Passed the proposal to remove the non-compete restriction on directors.</li> <li>7. Passed the amendment to Company's Articles of Association.</li> <li>8. Passed the proposal for reelection of directors to be presented to shareholders' meeting.</li> </ol>
Special Shareholders' Meeting	2010/4/17	<ol style="list-style-type: none"> <li>1. Approved the conversion of face value of capital stocks from USD to TWD and increase of Company's authorized capital.</li> <li>2. Approved the proposal to apply for IPO in Taiwan.</li> <li>3. Passed the amendment to Company's Articles of Association.</li> <li>4. Elected Company directors.</li> </ol>
Board of Directors Meeting	2010/4/28	<ol style="list-style-type: none"> <li>1. Elected Company chairman.</li> <li>2. Passed the proposal to set up an audit committee.</li> <li>3. Passed the Group's organizational structure.</li> </ol>
Board of Directors Meeting	2010/5/27	<ol style="list-style-type: none"> <li>1. Passed the time, place, record date for suspension of title transfer registration and agenda for 2011 general shareholders' meeting.</li> <li>2. Approved the 2007 ~ 2009 pro forma consolidated financial statements, 2009 consolidated financial statements and 2010 Q1 consolidated financial statements of AirTAC International Group.</li> <li>3. Approve the 2007~2009 and 2010 Q1 financial reports of subsidiaries.</li> <li>4. Passed the 2009 earnings distribution plan.</li> <li>5. Passed the proposed capitalization of capital surplus and dividend distribution plan.</li> <li>6. Passed the proposal for application for listing in Taiwan and issue of new shares for cash capital increase, and the proposal to shareholders asking them to forego their share subscription option.</li> <li>7. Passed the proposal to remove the non-compete restriction on managers.</li> <li>8. Passed the proposal to remove the non-compete restriction on newly elected directors.</li> <li>9. Passed the Statement of Internal Controls.</li> <li>10. Passed the amendment to Articles of Association.</li> </ol>
Shareholders' Meeting	2010/6/29	<ol style="list-style-type: none"> <li>1. Approved the 2009.9.16~2009.12.31 consolidated financial statements.</li> <li>2. Approved the 2007~2009 pro forma consolidated financial statements.</li> <li>3. Passed the 2009 earnings distribution plan.</li> </ol>

Meeting	Date	Important resolutions
		4. Passed the proposed capitalization of capital surplus and dividends distribution plan. 5. Passed the proposal for cash capital increase and all shareholders consented to forego their share subscription option. 6. Passed the proposal to remove the non-compete restriction on directors. 7. Passed the amendment to Company's Articles of Association.
Board of Directors Meeting	2010/7/30	1. Passed the proposed transfer of shares by shareholders and inclusion of transferees in the roster of shareholders. 2. Passed the proposal to appoint Yuanta Securities as underwriter for over-allotment.
Board of Directors Meeting	2010/8/6	1. Passed the financial report for the first half of 2010. 2. Passed the Statement of Internal Controls.
Board of Directors Meeting	2010/9/6	No major resolutions made.
Board of Directors Meeting	2010/10/20	1. Passed the proposed cash capital increase in connection with application for listing in Taiwan. 2. Passed the proposal to apply for public issuance of Company's common shares.
Board of Directors Meeting	2010/12/8	1. Passed the amendment to Articles of Association. 2. Passed the 2011 audit plan.
Board of Directors Meeting	2011/1/3	Passed the proposed 2011 capital expenditure plan.
Board of Directors Meeting	2011/3/11	1. Approved the 2010 consolidated financial statements of the Company and subsidiaries. 2. Passed the time, place, record date for suspension of title transfer registration and agenda for 2011 general shareholders' meeting. 3. Passed the 2010 earnings distribution plan. 4. Passed the amendment to Company's Articles of Association. 5. Passed the revised Procedure to Providing Loans to Others" and "Procedure for Endorsement and Guarantee Operation." 6. Passed the Statement of Internal Controls.
Board of Directors Meeting	2011/4/27	1. Passed the proposal to establish AirTAC (China) Co., Ltd. 2. Passed the proposed capital increase of Ningbo AirTAC Automatic Industrial Co. 3. Passed the amendment to Company's Articles of Association. 4. Passed the proposed exchange rate for RMB vs. TWD in connection with cash dividends to shareholders in the 2010 earnings distribution plan.

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
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Deloitte & Touche Taiwan	Jacky M. Chen	K.W. Lai	2010.1.1-2010.12.31	
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In 1,000 TWD

Fee item		Audit fees	Non-audit fees	Total
Bracket				
1	<\$2,000,000	1,300	1,000	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	& Jacky M. Chen K.W. Lai	1,300				1,000	1,000	2010	Note

Note: The aforesaid CPA fees do not include fees of RMB 1,140,000 (equivalent to TWD 5,062,000, including TWD 1,243,000 audit fees and TWD 3,819,000 non-audit fees) paid to Deloitte Touche Tohmatsu in China in 2010, 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 are one quarter or more of the audit fees paid thereto: The non-audit fees were incurred for listing consulting services.

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: None.

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	2010		2011 up to April 11	
		Increase (decrease) of shares held (Note)	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	—	—	—	—
Director & President of Jianliang (Shanghai)	Lin Chiang-Ti	150,000	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	(250,000)	—	—	—
President of Taiwan AirTAC	Yang Kuo-Yi	65,000	—	—	—
President of Ningbo AirTAC	Li Hui-Wen	—	—	—	—
Chief Financial Officer	Tsao Yung-Hsiang,	60,000	60,000	—	—
Chief Audit Officer	Lin Chian-Ming	63,000	63,000	—	(63,000)
10% shareholder	Baring Private Equity Asia III Holding (6A) Limited	(300,000)	—	—	—
10% shareholder	Ding Kan Investment Ltd.	(300,000)	—	—	—

Note: Calculated based on capital after issue of new share for cash capital increase approved in general shareholders' meeting held on 2010.06.29.

(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; 2011.04.11

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%	—	—	—	—	Proud Unit Company Ltd	Similar equity structure	Note
Baring Private Equity Asia III Holding (6A) Limited	21,671,250	14.45%	—	—	—	—	—	—	Private equity fund
Core Value Fund Ltd	12,635,000	8.42%	—	—	—	—	—	—	Investment fund
YHZ Ltd.	10,432,850	6.96%	—	—	—	—	—	—	Note
Express Brilliant Ltd	8,665,000	5.78%	—	—	—	—	—	—	Note
Limited Partnership Investment Account of Goldman Sachs Investment Partners Master Fund under the trust of HSBC (Taiwan)	6,262,000	4.17%	—	—	—	—	—	—	—
Chen Rui-Long	4,999,065	3.33%	—	—	—	—	—	—	—
Lin Shu-Mei	3,746,357	2.50%	—	—	—	—	Ding Kan Investment and Proud Unit Company Ltd	Spouse of a director	—
Proud Unit Company Ltd.	3,698,426	2.47%	—	—	—	—	Ding Kan Investment Ltd.	Similar equity structure	Note
Sun Po	3,511,700	2.34%	—	—	—	—	—	—	—

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	Total investment
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			or indirectly by the Company			
	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%
Ningbo AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100.00%
Guangdong AirTAC Automatic Industrial Co.	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	2,000,000	100%	—	—	2,000,000	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 11, 2011; 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.

#### 4.1.2 Shareholder structure

2011.04.11; unit: shares

Shareholder entity	Government agency	Financial institution	Other juristic person	Individuals	Foreign institutions and foreigners	Total
No. of people	-	5	53	1,211	106	1,375
No. of shares held	-	307,000	6,884,000	30,838,584	111,970,414	149,999,998
Percentage of ownership (%)	-	0.20%	4.59%	20.56%	74.65%	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 18.95% of stocks.

#### 4.1.3 Dispersion of stock ownership

Face value per share: TWD 10; 2010.04.11; unit: shares

Shares	Number of shareholders	Total shares held	Percentage of ownership
1 ~ 999	34	4,869	0.00%
1,000 ~ 5,000	1,037	1,710,820	1.14%
5,001~ 10,000	79	680,000	0.45%
10,001~ 15,000	27	372,000	0.25%
15,001~ 20,000	18	334,000	0.22%
20,001~ 30,000	21	538,000	0.36%
30,001~ 50,000	32	1,285,010	0.85%
50,001~ 100,000	31	2,260,000	1.51%
100,001~ 200,000	31	4,681,301	3.12%
200,001~ 400,000	23	6,924,913	4.62%
400,001~ 600,000	12	5,988,901	3.99%
600,001~ 800,000	6	4,379,520	2.92%
800,001~1,000,000	4	3,664,416	2.44%
>1,000,001	20	117,176,248	78.13%
Total	1,375	149,999,998	100.00%

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

April 11, 2011; Unit: shares

Shareholding Name of major shareholder	Shares held	Percentage
Ding Kan Investment Ltd.	23,773,000	15.85%
Baring Private Equity Asia III Holding (6A) Limited	21,671,250	14.45%
Core Value Fund Ltd	12,635,000	8.42%
YHZ Ltd.	10,432,850	6.96%
Express Brilliant Ltd	8,665,000	5.78%
Goldman Sachs Investment Partners Master Fund, L.P.	6,262,000	4.17%
Chen Rui-Long	4,999,065	3.33%
Lin Shu-Mei	3,746,357	2.50%
Proud Unit Company Ltd.	3,698,426	2.47%
Sun Po	3,511,700	2.34%

#### 4.1.5 Stock price, net worth, earnings, dividends per share and related information (2009-2010)

Unit: TWD; 1,000 shares

Item \ Year		2009 (Note 7)	2010	2011/03/31 (Note 9)
Stock price	High	Not listed	166.00	197.00
	Low	Not listed	130.00	137.00
	Average	Not listed	152.47	160.22
Net worth per share	Basic	35.69	29.41	32.07
	Diluted	15.70	(Note 8)	(Note 8)
Earnings per share	Weighted average shares	64,700	134,025	150,000
	Earnings per share (Note 2)	3.45	7.76	2.22
Dividends per share	Cash dividend		3.475 (Note 1)	4.36 (Note 8)
	Stock dividend	Earnings (TWD)	—	—
		Capital surplus (TWD)	10.56	—
	Accumulated unpaid dividend (Note 3)		46,383	—
Return analysis	Price-earnings ratio (Note 4)		Not listed	19.65
	Price-dividend ratio (Note 5)		Not listed	34.97
	Cash dividend yield (Note 6)		Not listed	0.03%

Note 1: The 2009 earnings distribution plan has been passed in shareholders' meeting held on June 20, 2010, according to which, the Company will distribute cash dividend USD 0.108 per share (USD:TWD = 1:32.18).

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 2009 stock dividend was dividend paid out before the organizational adjustment.

Note 8: The 2010 earnings distribution plan is awaiting the approval of shareholders.

Note 9: The 2011 Q1 financial statements are CPA audited.

#### 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 2010 dividend distribution plan passed by the board of directors in meetings held on March 11 and April 27, 2011, the Company will distribute cash dividend in the amount of RMB 1 for 2010 (equivalent to TWD 4.36). Total cash dividends to be distributed for the year amount to TWD 653,999,991.

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 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 2010 totals RMB 5,440,000.

(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 2010 financial statements, and earnings per share for the year are TWD 7.76 on such basis.

4. Information on distribution of previous year's earnings as employee bonus and remuneration to directors and supervisors: The Company was incorporated on September 16, 2009. The original parent company Admire Fame International Limited did not distribute employee bonus or remuneration to directors in the first half of 2010.

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 depositary 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	2009		2010	
	Amount	% of revenue	Amount	% of revenue
Actuator	1,095,471	38.28%	1,691,781	39.35%
Control components	910,333	31.82%	1,318,697	30.67%
Air preparation units	312,821	10.93%	439,571	10.23%
Others	542,903	18.97%	849,044	19.75%
Total	2,861,528	100.00%	4,299,093	100.00%

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

Actuator(cylinder)	Standard cylinder, twin rod cylinder, pen cylinder, compact cylinder, miniature cylinder, lockable 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): standard cylinder (ACE series), cylinder with valve, magnetically coupled three-axis cylinder, precision slide table cylinder (side guide, 2-axis), pneumatic finger (parallel, Y-shaped), mechanical rodless cylinder, HRO rotary cylinder, **clamping cylinder** (抱緊氣缸), and ACQ lockable cylinder.

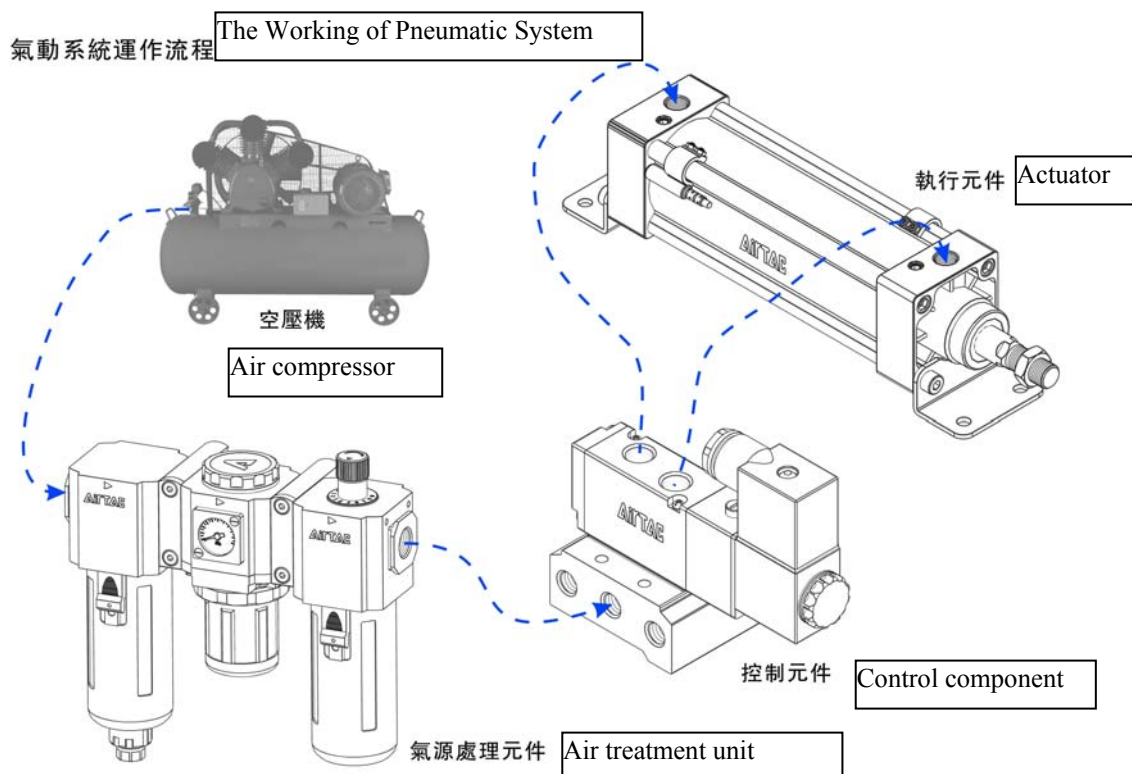
② Control components (valve): ASV solenoid valve, 2JS/2JW angle valve, SDR regulating valve.

③ Others: two-way connector, floating head flange (浮頭接頭).

## 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. In view of the world pneumatic business, the development of pneumatic components is moving in the following directions:

### **A. Miniaturization and integration**

Miniaturization is a major development trend in the pneumatic industry. The smallest cylinder at the present time has an inner diameter of only  $\phi 2.5$  and comes with a switch; smallest solenoid valve is only 10mm in width with effective cross section of  $5\text{mm}^2$ . According to survey, the demand for miniature parts and components is expected to grow 100% every five years. An integrated pneumatic valve is not merely an assembly of a few valves, but contains sensor and programmable controller. The purpose of integration is not just to save space but to facilitate installation, maintenance and working reliability.

### **B. Combination and smart component**

A combination cylinder could come with valve or switch, and could be the combination of linear cylinder, oscillating cylinder, air chuck and vacuum suction. Other typical combination products include twin cylinder with guide and cylinder with solenoid valve and programmable controller.

A smart valve that comes with sensor and logic circuit is the union of pneumatic and photovoltaic technology that can read the sensor signals directly with an external actuator. The logic circuit in the combination could decide the jobs to be performed by the smart valve and actuator.

### **C. Precision**

To render the positioning of cylinder more precise, sensor and proportional valve are incorporated to achieve feedback control that can achieve 0.01mm positioning precision.

Precision cylinders also include 0.3mm/s low-speed cylinder and 0.01N small-load cylinder that have been developed.

In the development of air preparation unit, pressure reducing valve with filter precision of 0.01mm, filter efficiency of 99.9999% and sensitivity of 0.001MPa has been developed.

### **D. High speed**

To increase production efficiency, high-speed automation is an inevitable trend.

Cylinder speed at the present time ranges between 50-750mm/s. The demand for piston speed of the cylinder is to increase to 5m/s and to 10m/s at the highest. According

to survey, the demand for cylinders with 2-5m/s speed will increase 2 folds, and that for cylinders with 5m/s or higher speed will increase 3 folds in the next 5 years. In correspondence, the response speed of valve must also increase to 1/1000s from the current 1/100s.

#### **E. Grease free, odorless and aseptic**

As environmental requirements become more stringent, lubricant-free pneumatic components will be popularized. Some businesses, such as food, drink and beverage, pharmaceutical and electronic have seen more rigorous requirements for air quality. Aside from grease free, there will be demand for odorless and aseptic pneumatic components, and programs for such special requirements will continue to be developed.

#### **F. Long life span, high reliability and self-diagnosis function**

Pneumatic valves with 50 million life cycle and 3,000km cylinders are now commercialized. But in textile machinery, there is a kind of high-frequency valve with demand for 100 million life cycle, preferably 200 million life cycle.

Pneumatic components are used mostly in automated production line. A breakdown of a component will affect the operation of the entire line, and result in considerable loss. Thus there is high requirement for the working reliability of pneumatic components.

#### **G. Energy saving and low power consumption**

Low-power pneumatic components not only serve the purpose of energy conservation, more importantly, they are the union of pneumatic and microelectronic technologies. Solenoid valve with 0.5W power has long been commercialized, and PC-controlled 0.4W and 0.3W valves have also been developed.

#### **H. Electro-mechanical integration**

To achieve the preset control objectives (e.g. switch, speed, output and position), closed-loop feedback control is employed, while the conversion between pneumatic-electric signals is the key to closed-loop control. There are all kinds of proportional control valve and electric-pneumatic proportional control/server systems for use, for example, in the precision positioning of cylinder, or in the suspension system of vehicles to achieve better shock absorption, or automated tilting apparatus for the turning of cable car, and robot serving patients. But there is room for further improvement to make their applications more practical and economical.

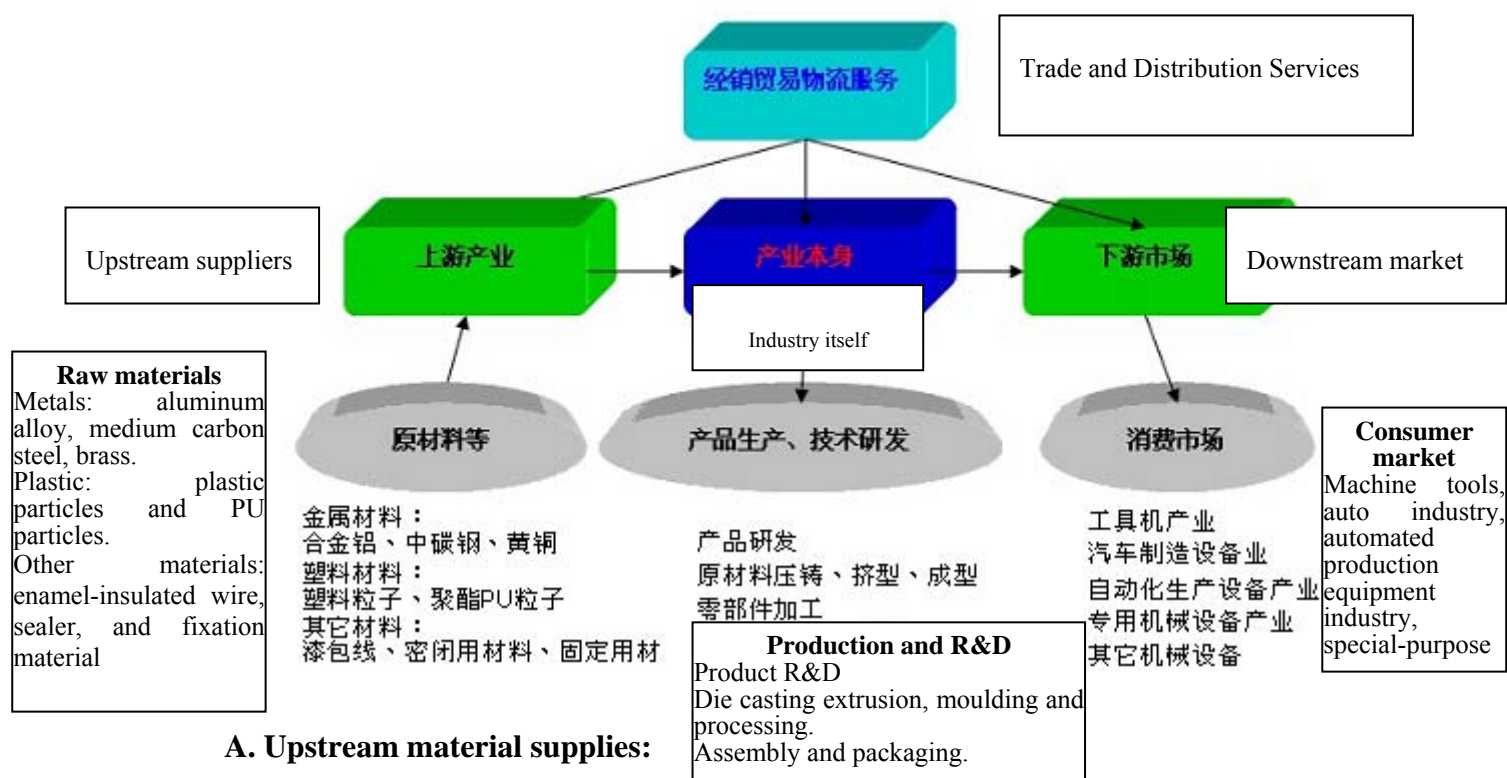
### **(3) 2005-2010 market demand analysis**

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 forecast of the China Hydraulics Pneumatics & Seals Association, the pneumatic industry will grow 18% 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.



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 reports presented in CETOP International Fluid Power Summit/ISC meeting, the consumption of pneumatic products is equivalent to 2.5 billion euro in 2009 and 7.6 billion euro in 2008. China was the only country with market growth, growing 1.93%. As the leading economic indicators in China hit record

high in 2010, the pneumatic industry will see 12.5% growth from 2009.

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 in with 30% market share. SMC is also a leader in the world market with more than 30% market share. FESTO (Germany) is the world's largest pneumatic component manufacturer with 10% 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 26% 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 currently owns 19 appearance patents (e.g. Pneumatic Preparation Component (GL300 Oil Feeder)), 4 utility model patents (e.g. swing clamp cylinder), and 2 invention patents (e.g. regulating valve). Patents currently pending include an invention patent application entitled "Deflector" that is now under substantive review and a utility model patent application entitled "Adjustable Hydraulic Damper" 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	2009	2010	2011 up to April 30
Education			
Master and higher	3	4	3
College	64	102	109
High school	117	122	143
Total	184	228	255

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

In TWD 1,000

Item	2006	2007	2008	2009	2010	2011 Q1
R&D expense	Note	14,088	49,248	87,505	103,805	10,587
Net income		2,409,458	2,714,119	2,861,528	4,299,093	1,269,999
% of net income		0.58%	1.81%	3.06%	2.41%	0.01%

Note: The Company did not produce pro forma consolidated financial statements for 2006.

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

Year	Part No.	Product
2005	KA0067	G300 Series Preparation Units
	KA0068	G200 Series Preparation Units
2006	KA0069	G400 Series Preparation Units
	KA0070	MD/MK Series Cylinder
2007	KA0007	CDA/CLA072 Coil
	KA0008	CDA/CLA080 Coil
	KA0018	Buffering Mini Cylinder PBC

Year	Part No.	Product
	KA0071	MI Series Cylinder
	KA0072	MF Series Cylinder
	KA0073	SCL/SUL Series Lockable Cylinder
	KA0074	PB Series Cylinder
	KA0075	SIL Series Lockable Cylinder
	KA0076	MIC Series
	KB0031	Hand Lever Valve 4HV
	KB0033	B Series
	KB0037	Pedaled Valve Series
	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	Tight 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

Year	Part No.	Product
	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
	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

Year	Part No.	Product
	KB0089	SI Series Cylinder Improvement
	KD0081	IR Ingersoll Non-Standard
	KD0088	Pneumatic Finger 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
	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 up to the date of annual report	KA0022	QCK Series Swivel Clamping Cylinder
	KA0061	ESV Series Solenoid Valve
	KA0097	CM3 Series Mechanical Actuated Valve
	KA0098	RMS Series Magnetic Coupling Rodless Cylinder

#### 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

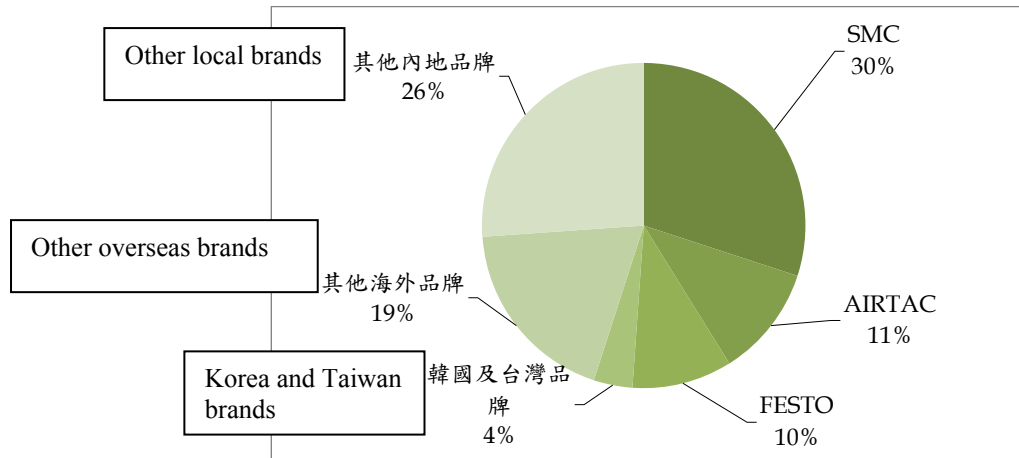
In TWD 1,000

Region	2009		2010	
	Amount	%	Amount	%
Greater China (Note)	2,682,926	93.76%	4,071,978	94.72%
Others	178,602	6.24%	227,115	5.28%
Total	2,861,528	100.00%	4,299,093	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

Pneumatic products are used in a wide variety of industries. Major pneumatic component makers in China include SMC, AirTAC and FESTO (Germany). SMC accounts for 30% of market share, ranking No. 1, followed by AirTAC, ranking No. 2 with 11% market share, and FESTO (Germany), ranking No. 3 with 10% market share. These three leading brands take up 51% 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 26% 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 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 are expected to be gradually replaced by products made by local makers such that the market shares of Chinese brand products will rise gradually along with the rising market demand.

#### 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 statistical data of Taiwan Machine Tool Foundation show that the output value of global machine tool industry is estimated at US\$64.4 billion, growing 20% from 2009, while the output value of China's machine tool industry is estimated at US\$20 billion, up 31% or US\$4,746 million from US\$15.25 billion in 2009, leading other major producing countries by a wide margin. Over the same period, Japan's output is expected to increase US\$2,876 million, while Germany will decline by US\$2,015 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, as 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 2010, China remains the largest machine tool country in terms of consumption and output.

The economic recovery in 2011 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\$118.5 billion, averaging US\$23.8 billion a year, suggesting considerable room for growth from US\$20 billion in 2010. The growth of the world machine tool industry is expected to focus in Asia and China.

2010 Estimated Output of Major Machine Tool Producing Countries (in USD 1 million)

2010 ranking	Country	2009	2010 (E)	Change (amount)	Change (%)
1	China	15,254	20,000	4,746	31.1%
2	Japan	6,421	9,297	2,876	44.8%
3	Germany	10,827	8,812	-2,015	-18.6%
4	Italy	5,254	5,184	-70	-1.3%
5	Korea	2,665	5,000	2,335	87.6%

Source: Taiwan Machine Tool Foundation, October 2010

2010 Estimated Import of Major Machine Tool Importing Countries (in USD 1 million)

2010 ranking	Country	2009	2010 (E)	Change (amount)	Change (%)
1	China	5,873	8,000	2,127	36.2%
2	USA	2,262	2,552	290	12.8%
3	Germany	2,251	1,762	-489	-21.7%
4	Korea	1,133	1,300	167	14.7%
5	India	912	1,295	383	42%

Source: Taiwan Machine Tool Foundation, October 2010

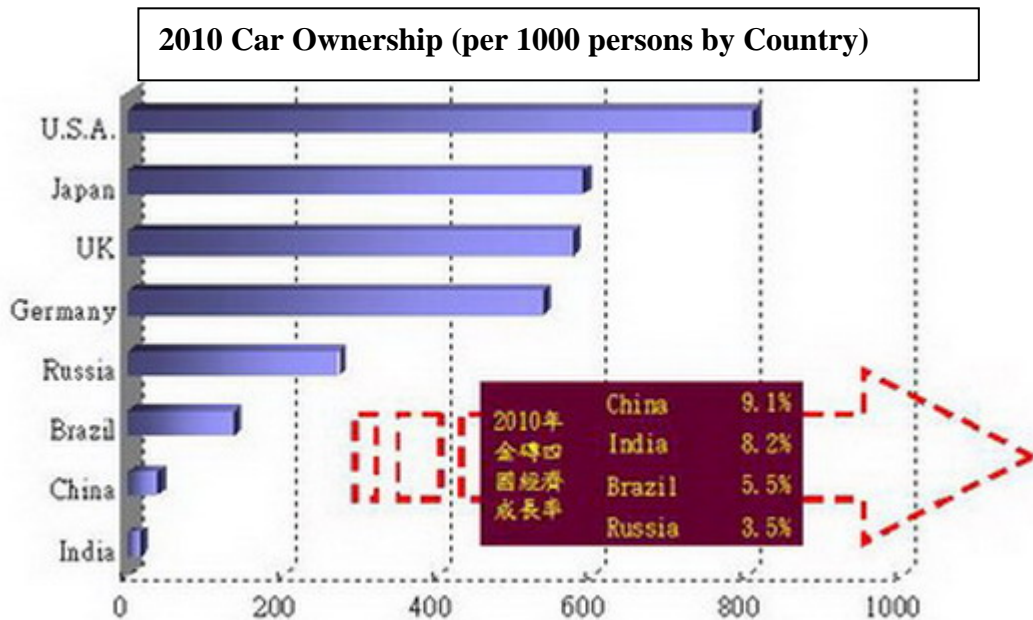
2010 Estimated Consumption of Major Machine Tool Consuming Countries (in USD 1 million)

2010 ranking	Country	2009	2010 (E)	Change (amount)	Change (%)
1	China	19,722	26,400	6,678	33.9

2	Korea	2,586	4,800	2,214	85.6
3	USA	3,246	4,670	1,424	43.9
4	Germany	5,816	4,354	-1,462	-25.1
5	Japan	2,526	2,973	447	17.7

Source: Taiwan Machine Tool Foundation, October 2010

## ② Automotive industry



Source: China Automotive Industry Yearbook, compiled by ARTC

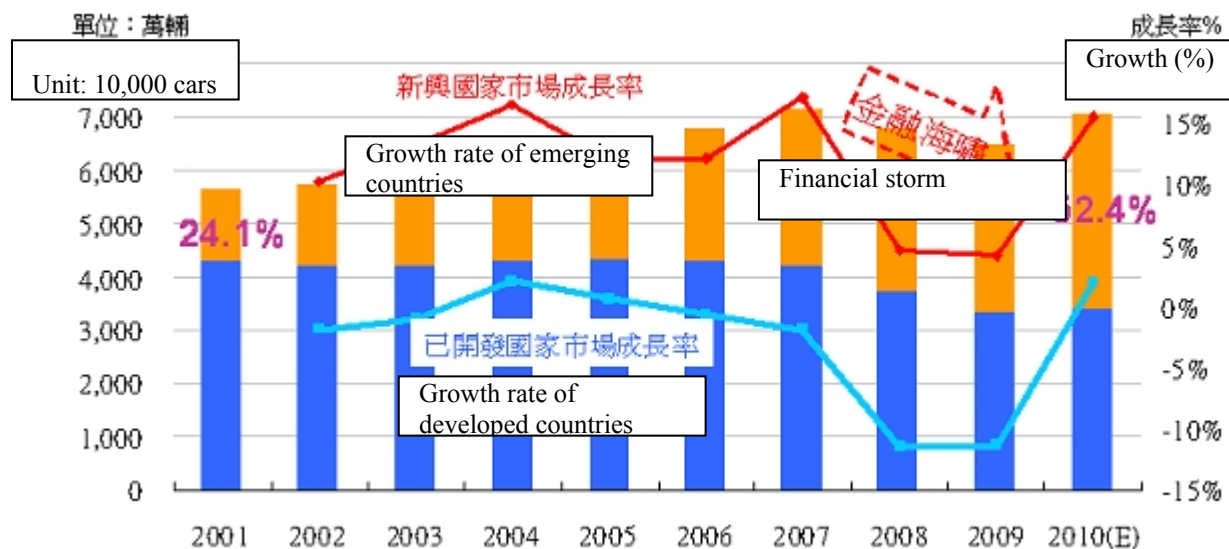
The Economic Growth of BRIC Countries in 2010.

According to the estimates of J.D. Power and Associates, benefitted from the turnaround of global economy and the growth of emerging markets, global auto sales in 2010 reached 72,000,000 cars, reaching a new record high. The great majority of countries saw positive growth in car sales with China being a dominant market leader, recording total sale of 18,060,000 cars and 32% growth, followed by USA and Japan selling 11,590,000 cars and 5,950,000 cars and growing 11% and 7%, respectively.

By the level of national development, emerging countries, particularly BRICs, are catching up with developed countries in car sales, recording total sales close to 37 million cars in 2010, accounting for more than 50% (51%) of global market share. Car ownership in advanced countries is around 500 cars/1000 persons, whereas that of BRIC countries is still quite a distance away. In addition, as the BRIC countries continue to turn in decent performance economically in recent years, in particular China and India, recording close to 10% annual growth, car sales in those countries will continue to see breakthrough, as long as the world economy does not plunge into recession. As such, demands for welding equipment, auto parts production equipment and car assembly equipment should rise along with the growth in car sales,

which will also benefit the business of pneumatic component makers.

### Global Car Sales



Source: Markline; Fourin, compiled by ARTC

Favorable factors for China's automotive industry in 2011 include: steady growth in world economy will drive the export of automobiles; industrialization, urbanization, and town construction will push the growth in automotive consumption in second tier and third tier cities. Unfavorable factors include: many car purchase incentive policies, such as tax on vehicle purchase, retirement of old cars, and car subsidies in villages have ended in 2011. What follows is the implementation of vehicle purchase restriction policy. For example, after Beijing has implemented the "one car per person" policy, many provinces and cities in China are expected to follow suit. On the other hand, prices of raw materials will climb in 2011 as the world economy recovers and enterprises will face rising costs. Overall, China's automotive industry in 2011 will see steady growth instead of high-speed growth at the rate of 10-15%.

### ③ Semiconductor equipment industry

According to the Worldwide Semiconductor Equipment Market Statistics (SEMS) published by Semiconductor Equipment and Materials International (SEMI), worldwide sales of semiconductor equipment totaled US\$39.53 billion in 2010, growing 148% as compared to US\$15.92 billion in sales posted in 2009, setting new record in recent years. By product category, wafer processing equipment market grew 149% from 2009; assembly and packaging equipment market also increased

176%, and test equipment market increased 167%; other front-end equipment market sales also jumped 78%. The report also mentions that spending increased by double-digits to triple-digits for all the regions, with the steepest increases reported for China and Korea, up 286% and 220% respectively. The Chinese government is currently leading the country's semiconductor industry development efforts and supports the internalization of the wafer materials and equipment, which differs from the turnkey purchase model adopted by companies in Taiwan and Japan. Currently Chinese governments make investment in semiconductor companies through local government agencies that totals more than US\$50 billion so far. Under the incentives of semiconductor equipment autonomy policy, local pneumatic component manufacturers will benefit.

2009~2010 Semiconductor Equipment Spending (in USD 100m)

Area	2009	2010	Change (amount)	% of change from previous year
China	9.4	36.3	26.9	286%
Europe	9.7	23.3	13.6	140%
Japan	22.3	44.4	22.1	99%
Korea	26	83.3	57.3	220%
North America	33.9	57.6	23.7	70%
Taiwan	43.5	111.9	68.4	157%
Other areas	14.4	38.5	24.1	167%
Total	159.2	395.4	236.2	148%

(Source: SEMI/SEAJ, March 2011)

To sum up, markets for the main products of the Company have sizable demands from the perspectives of machine tools industry, automotive industry or semiconductor equipment industry. In addition, as the global economy gradually emerges from financial crisis in 2010, 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, and the Company will take the opportunity to rise above the horizon.

#### (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. “AirTAC” is now a well-known trademark in Ningbo and Jejiang Province. The Company is currently applying for nationwide famous trademark registration that will protect the AirTAC brand from infringement. 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 a leading brand in China’s pneumatic component market, second only to SMC. 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 and Europe 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 Jianliang (Shanghai), the Company has branch offices, representative offices and distributors throughout the urban and rural areas of China. Now the Company has 40 branch offices, 10 representative offices and more than 500 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 30 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 Increasingly serious labor shortage in China will propel industries to increase the

automation in processes

Businesses in China experienced serious labor shortage and sharply rising wages in 2010, mainly due to the country's one-child policy and shift of industrial policies. 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.

#### 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, copper 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. But in the fourth quarter of 2008, the economic downturn drove the prices of raw materials down sharply. The prices of aluminum and copper at the end of 2008 were only 50% of their high during the year. In 2009, the economy started to pick up slowly, but the prices of raw materials shot up, approaching the 2008 pre-fall levels by the end of 2009. The prices of raw materials are expected to pick up again in 2011 that will push up the costs of mechanical industry. The volatility in raw material prices makes it difficult for manufacturers to grasp their costs and delivery date. 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

- ❶ The Company has registered the brand "AirTAC" in the local markets in China and has applied to the State Council for "famous trademark" certificate. Once receiving the certificate, nobody else may register the "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.
- ❷ 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.
- ❸ Wage hike in China boosts the production costs

Ever since China implements the Labor Contract Law in 2008, worker wages and benefits have been rising. The cost of labor accounts for an increasingly higher percentage of production cost and eats into the product's profit margin.

#### 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.

- ❹ 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 2010. The growth of mechanical industry is expected to be suppressed in 2011.

#### Response strategy

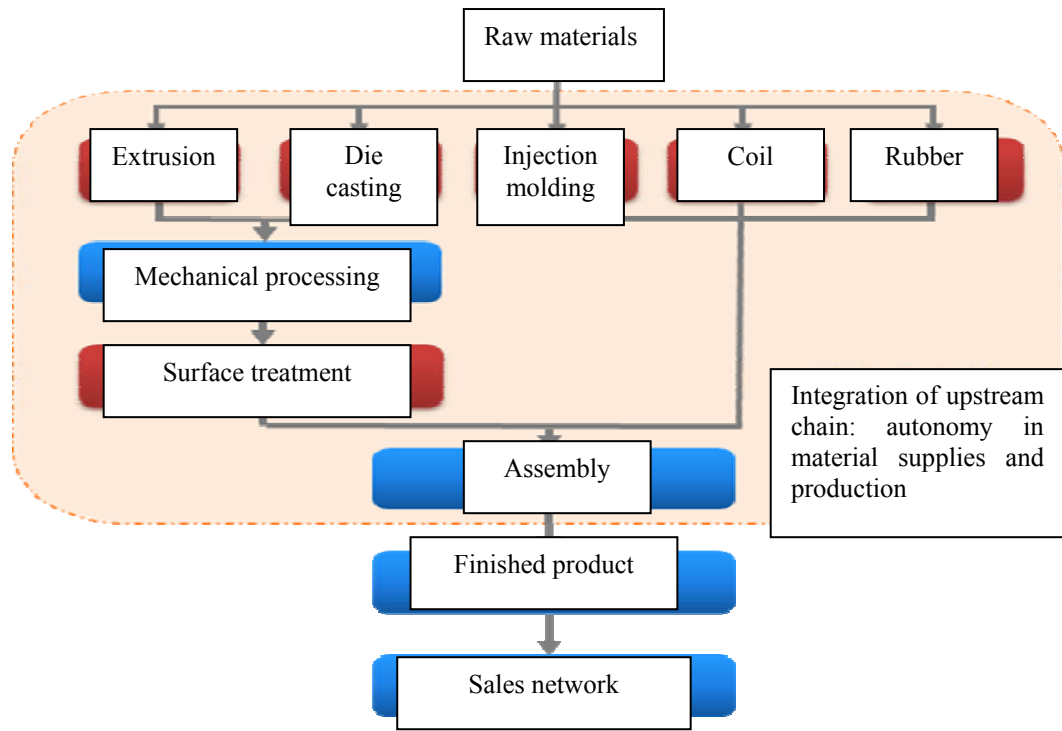
Nearly 90% of the Company purchase and sale take place in China. The Group also uses RMB as functional currency and accounting currency, and thereby has limited exposure to Renminbi exchange rate fluctuation. The Company's consolidated export revenue accounts for approximately 5% of the consolidated 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	Kunshan Dazhan, Huang Ming	Good
Brass	Jintian Copper Tube, Jin Yin Nonferrous Metal	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	2009				2010				2011 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	81,740	9.82%	None	Yuan Tai	138,760	9.70%	None	Yuan Tai	43,573	11.79%	None
2	Chiho-Tiande	76,217	9.16%	None	Chiho-Tiande	98,702	6.90%	None	Chiho-Tiande	27,616	7.47%	None
3	Ningbo Henxing	36,513	4.39%	None	Wuxi Chengda	44,454	3.11%	None	Wuxi Chengda	12,262	3.32%	None
4	Wuxi Chengda	24,239	2.91%	None	Ningbo Jintian	34,792	2.43%	None	Ningbo Jintian	10,489	2.84%	None
5	Yuanlifu	23,482	2.82%	None	Shanghai Banye	32,093	2.25%	None	Yili Sule	9,616	2.60%	None
6	Kunshan Dazhan	15,902	1.91%	None	Yili Sule	27,143	1.90%	None	Shanghai Banye	8,837	2.39%	None
7	Jintian Copper Tube	14,744	1.77%	None	Foshan Jin Yin	25,581	1.79%	None	Gaodin Precision	7,516	2.03%	None
8	Putuo Jiaxin	13,659	1.64%	None	Kunshan Dazhan	25,451	1.78%	None	Jejiang Shengu	7,427	2.01%	None
9	Gaoding Chemical	13,417	1.61%	None	Zhoushan Putuo	25,184	1.76%	None	Huang Ming Metals	6,694	1.81%	None
10	Jin Yin	12,299	1.47%	None	Gaodin Precision	23,933	1.67%	None	Zhoushan Putuo	6,642	1.80%	None
	Others	520,264	62.50%		Others	953,874	66.71%		Others	228,798	61.94%	
	Net purchase	832,476	100%		Net purchase	1,429,967	100%		Net purchase	369,470	100%	

Change analysis: Purchase from Yuan Tai in 2011 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

In TWD 1,000

Rank	2009				2010				2011 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	53,968	1.89%	None	Jin Hua Jiulong	115,637	2.69%	None	Changsha Sanyi	20,579	1.62%	None
2	Changsha Sanyi	40,129	1.40%	None	Changsha Sanyi	70,967	1.65%	None	Changsha Shenhong	12,625	1.00%	None
3	Tianya	20,245	0.71%	None	Changsha Shenhong	35,265	0.82%	None	Qiangjing	10,412	0.82%	None
4	Qiangjing	20,068	0.70%	None	Qiangjing	35,170	0.82%	None	Tianya	10,133	0.80%	None
5	Changsha Shenhong	18,421	0.64%	None	Tianya	29,301	0.68%	None	Bo Yi	8,518	0.67%	None
6	KPN	18,163	0.63%	None	Shanke Automation	23,606	0.55%	None	Si Jie Ten	6,753	0.53%	None
7	Shanke Automation	16,779	0.59%	None	Anderson Industrial	20,669	0.48%	None	Bootsolar	6,716	0.53%	None
8	Yi Ya	14,177	0.50%	None	Yuanlifu	20,135	0.47%	None	Shanke Automation	6,026	0.48%	None
9	Yuanlifu	13,983	0.49%	None	Kun Ya	19,890	0.46%	None	Kun Ya	5,645	0.44%	None
10	Taizhou Reige	13,045	0.45%	None	Changsha Zoomlion	19,870	0.46%	None	Changsha Zoomlion	5,512	0.43%	None
	Others	2,632,550	92.00%		Others	3,908,583	90.92%		Others	1,177,080	92.68%	
	Net sales	2,861,528	100%		Net sales	4,299,093	100%		Net sales	1,269,999	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

Prodction Main products	Year	2009			2010		
		Capacity	Output quantity	Output value	Capacity	Output quantity	Output value
Pneumatic control component		3,414	3,242	461,008	5,863	5,541	743,703
Pneumatic actuator		2,202	1,924	505,777	3,509	3,367	767,798
Air preparation unit		1,168	994	165,599	1,806	1,514	218,582
Others		Note	Note	101,152	Note	Note	131,333
Total				1,233,536			1,861,416

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 2010 all grew significantly over 2009, mainly because the overall industry began to recover starting in the second quarter of 2009. Under the economic stimulus plans of the Chinese government, 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. 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	2009				2010			
		Domestic sale		Export sale		Domestic sale		Export sale	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Pneumatic control component		2,880	853,511	254	56,821	2,891	1,637,121	127	54,660
Pneumatic actuator		1,736	1,027,094	115	68,377	4,474	1,235,301	339	83,396
Air preparation unit		862	293,295	96	19,526	1,297	399,130	142	40,441
Others		10,143	509,017	802	33,887	15,751	800,426	651	48,618
Total		15,621	2,682,917	1,267	178,611	24,413	4,071,978	1,259	227,115

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

Change analysis: The sales quantity and value of main products in 2010 all grew significantly over 2009, mainly because the overall industry began to recover starting in the second quarter of 2009. Under the economic stimulus plans of the Chinese government, 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. Thus the product sales increased sharply.



### 5.1.3 Employees

Unit: persons; %

Year		2009	2010	2011 up to the date of annual report
Number of employees	Manager and higher	101	75	83
	Staff	1,042	1,115	1,251
	Production line worker	1,061	1,429	1,550
	Total	2,204	2,619	2,884
Average age		26.30	27.15	27.04
Average years of service		3.53	3.32	3.45
Education background (%)	Ph.D.	-	-	-
	Master	0.55	0.73	0.52
	University/College	25.68	26.61	24.79
	High school	47.64	42.61	40.40
	Below high school	26.13	30.05	34.29

### 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.

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 employee in the last year		Average monthly salary of employee in the last year	

Employees who reach mandatory retirement age and have accumulated 15 years of contribution or longer are entitled to basic pension benefits. Basic pension benefit is composed of the following:

- ① Enrollment prior to December 31, 1997: base pension + personal account pension + transitional pension
- ② Enrollment after January 1, 1998: base pension + personal account pension

Explanation:

- A. Base pension:  $(\text{average monthly wage of city-wide fully employed staff and workers at the time of retirement} + \text{insured's average indexed monthly earnings}) / 2 \times \text{insured's years of contribution} \times 1\%$
- B. Personal account pension:  $\text{Deposit in personal account at the time of retirement} / \text{Months of disbursement corresponding to the insured's age of retirement}$
- C. Transitional pension:  $\text{average monthly wage of city-wide fully employed staff and workers} \times 2008 \text{ year-end average contribution wage index} \times \text{insured's years of contribution at the end of 2008} \times 1.4\%$

● Guangdong AirTAC Automatic Industrial Co.

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	

An insured in Guangzhou City meeting any of the criteria is eligible for monthly basic pension benefit:

- ① An insured who enrolled in basic pension insurance after July 1, 1998, has reached the prescribed retirement age and has accumulated 15 years of contribution (including equivalent years of contribution; the same hereunder) or longer;
- ② An insured who enrolled in basic pension insurance prior to June 30, 1998, has reached the prescribed retirement age prior to June 30, 2013 and has accumulated 10 years of contribution or longer;
- ③ An insured who enrolled in basic pension insurance prior to June 30, 1998, has reached the prescribed retirement age after July 1, 2013 and has accumulated 15 years of contribution or longer; or
- ④ An insured who should enroll but did not enroll in basic pension insurance prior to June 30, 1998, and after July 1, 1998, enrolled and made up past contribution, has reached the prescribed retirement age and has accumulated 15 years of contribution or longer;

Explanation:

- A. Base pension: (average monthly wage of province-wide fully employed staff and workers  $\times$  average contribution index + insured's average indexed monthly earnings)  $\div 2 \times$  years of contribution (including equivalent years of contribution)  $\times 1\%$
- B. Personal account pension: deposit in personal account  $\div$  months of disbursement based on personal account pension
- C. The insureds who have established equivalent contribution account will be paid additionally transitional pension on the basis of base pension and personal account pension:
- For insureds who enrolled in basic pension insurance prior to June 30, 1998:  
Transitional pension = Total balance in the insured's equivalent contribution account  $\div 120$
  - For insureds who enrolled in basic pension insurance after July 1, 1998 (having equivalent years of contribution as prescribed by the state prior to June 30, 2006):  
Transitional pension = Total balance in the insured's equivalent contribution account  $\div 120$
  - For insureds who have equivalent years of contribution as prescribed by the state after July 1, 2006:  
Transitional pension = Total balance in the insured's equivalent contribution account  $\div$  months of disbursement based on personal account pension
- D. For insureds who enrolled in basic pension insurance prior to June 30, 2006 and applied for basic pension after July 1, 2006 will be eligible for local pension benefit additionally: Local pension benefit = (average monthly wage of city-wide fully employed staff and workers in 2005 – average monthly wage of province-wide fully employed staff and workers in 2005)  $\div 2 \times$  insured's years of contribution prior to June 30, 2006  $\times 1\%$ .

● 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)	

- ① An insured who started working since January 1, 1993 and has accumulated 15 years of contribution is eligible for monthly basic pension benefit. The basic pension benefit consists of base pension and personal account pension.

- ② An insured who started working since the end of 1992 and has accumulated 15 years of contribution (including years of contribution in accordance with 《Notice of Shanghai Municipal People's Government Regarding "Nominal Account, Real Record" for Town Pension Insurance》 and maximum years of record for "Nominal Account, Real Record" under Decree Hu-Fu-Fa [2006] No. 19) is eligible for monthly basic pension benefit. The basic pension benefit consists of base pension, personal account pension, and transition pension.

Explanation:

- A. Base pension: The base is city-wide average monthly wage in the past year at the time of application for basic pension benefit + 1% for each full year of contribution.
- B. Personal account pension: Deposit in personal account (excluding amount in "nominal account, real record" and interest accrued) / months of disbursement corresponding to the age of retirement.
- C. Transitional pension: "Amount in "nominal account, real record" + interest accrued" /120.
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	2010.09.17 ~ 2011.09.16	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 16,250 (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
Loan	Ningbo AirTAC	2010.12.03 ~ 2011.12.02	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 7,313 (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

Nature of contract	Counterparty	Date of contract	Content	Covenant
Loan	Ningbo AirTAC	2011.01.17 ~ 2012.01.16	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 7,900 (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
Loan	Ningbo AirTAC	2011.03.14 ~ 2012.03.13	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 7,400 (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	2010.04.26 ~ 2013.04.14	Ningbo AirTAC obtains a loan of RMB 24 million for purchase of materials at the rate of 4.725%/mo.	None
Loan	Ningbo Bank, Fenghua Branch	2010.06.01 ~ 2013.04.20	Ningbo AirTAC obtains a loan of RMB 17 million for purchase of materials at the rate of 4.725%/mo.	None
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	Ningbo Bank, Fenghua Branch	2010.06.23 ~ 2012.09.20	Ningbo AirTAC obtains a loan of RMB 27 million for purchase of materials at the rate of 4.725%/mo.	None
Loan	AirTAC International Group	2010.09.17 ~ 2011.09.16	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 16,250 (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
Loan	AirTAC International Group	2010.12.03 ~ 2011.12.02	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 7,313 (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
Loan	AirTAC	2011.01.17 ~	The Company loans USD 4.9 million to	None

Nature of contract	Counterparty	Term of contract	Content	Covenant
	International Group	2012.01.16	Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 7,900 (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.	
Loan	AirTAC International Group	2011.03.13 ~ 2012.03.14	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 7,400 (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
Mortgage	Ningbo Bank, Fenghua Branch	2007.09.29	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
Mortgage	Ningbo Bank, Fenghua Branch	2010.04.22	Ningbo AirTAC provides the ownership of a house with house ownership certificate Feng-Hua-Shi-Zi-#01-76874 as collateral for a line of credit up to RMB 38 million from Ningbo Bank, Fenghua Branch between 2010.04.22 ~ 2016.04.21.	None
Mortgage	Ningbo Bank, Fenghua Branch	2010.05.04	Ningbo AirTAC provides the ownership of a house with house ownership certificates Feng-Hua-Shi-Zi-#01-82389 and 01-76872 as collateral for a line of credit up to RMB 30 million from Ningbo Bank, Fenghua Branch between 2010.05.04 ~ 2016.05.03.	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

### 3. Guangdong AirTAC

Nature of contract	Counterparty	Date of contract	Content	Covenant
Transfer of land use right	Foshan Nanhai District Song Gang Song Wei Property Management Co.	2009.11.26	Foshan Nanhai District Song Gang Song Wei Property Management Co. transfer the use right of 35.413 acres of land (equivalent to 23,608.3 m <sup>2</sup> ) located next to Dong Feng Road in Nanhai Economic Development Zone Song Xia Industrial Park to Guangdong AirTAC at the price of RMB	None

			10,978,030. The land is for industrial use. Guangdong AirTAC should participate in the auction of land department to obtain the land and pay off the total price in five working days after receiving a notice to pick up the “state-owned land use certificate.” In addition, Guangdong AirTAC should commence construction within six months after the contract takes effect. If Guangdong AirTAC fails to commence construction in two years after the land transfer, the land department will take actions according to relevant state policy.	
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.	2010.07.30 ~ 2011.12.31	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.	2011.01.01 ~ 2011.12.31	The parties sign a 2011 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	None



Nature of contract	Counterparty	Contract date	Content	Covenant
			agreed on in a separate agreement)	
Product distribution	Shanghai Shanke Automation Equipment Co.	2011.01.01 ~ 2011.12.31	Shanghai Shanke Automation Equipment will be a distributor of AirTAC products and accessories in Shanghai area.	None
Product distribution	Tianjin AirTAC Automation Equipment Co.	2011.01.01 ~ 2011.12.31	Tianjin AirTAC Automation Equipment will be a distributor of AirTAC products and accessories in Tianjin area.	Addendum
Product distribution	Jinan Yuanlifu Trading Co.	2011.01.01 ~ 2011.12.31	Jinan Yuanlifu Trading will be a distributor of AirTAC products and accessories in Jinan area.	Addendum
Product sales	Changsha Shenhong Machinery Co.	2011.01.01 ~ 2011.12.31	The parties sign a 2011 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement.	None
Purchase agreement	Fenghua Jin Rong Pneumatic Complete Factory	2011.01.01 ~ 2011.12.31	The parties sign a 2011 sales agreement involving gas controlled cabinets, valves and accessories, where sale will be settled according to tax-included unit price and the terms of the agreement.	None
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 June 6, 2008	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 Tucheng to Taiwan Cooperative Bank as guarantee for its loan provided to AirTAC Taiwan.	None
Purchase	Yamazaki Mazak Taiwan Corporation (Japan)	2011.03.14	AirTAC Taiwan orders 3 units of machine at the price of JPY 63,000,000 for delivery to Ningbo AirTAC (triangular trade). AirTAC Taiwan issues a guarantee note in the amount of TWD 4,200,000 due on 2011/08/31 for the purchase.	None

## 6. Financial Highlights

### I. Condensed Balance Sheets and Statements of Income (2006 ~ 2010):

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

##### 1. Condensed balance sheet

In 1,000 TWD

Year		Financial information, 2006 ~ 2010					Q1 2011 (Note 2)
		2006 (Note 1)	2007 (Note 2)	2008 (Note 2)	2009 (Note 2)	2010 (Note 2)	
Item							
Current assets		—	1,389,695	1,429,132	1,711,428	3,751,021	3,328,081
Funds and long-term investments		—	—	—	—	—	—
Fixed assets		—	2,230,808	2,555,853	2,544,151	2,790,964	3,123,143
Intangible assets		—	90,310	90,505	84,417	126,109	183,223
Other assets		—	17,090	29,293	39,647	41,914	29,871
Total assets		—	3,727,903	4,104,783	4,379,643	6,710,008	6,664,318
Current liabilities	Basic	—	884,685	782,401	1,340,167	1,306,903	893,093
	Diluted	—	—	—	—	1,306,903	893,093
Long-term liabilities		—	830,929	1,167,834	446,171	666,939	598,358
Other liabilities		—	66,765	121,160	154,702	203,071	236,138
Total liabilities	Basic	—	1,782,379	2,071,395	1,941,040	2,176,913	1,727,589
	Diluted	—	—	—	—	2,176,913	1,727,589
Capital stock		—	647,000	647,000	647,000	1,500,000	1,500,000
Capital surplus		—	645,278	707,131	1,642,892	1,991,694	2,023,091
Retained earnings	Basic	—	546,938	444,232	7,063	1,046,373	1,395,792
	Diluted	—	—	—	—	1,046,373	1,395,792
Unrealized gain(loss) on financial instruments		—	—	—	—	—	—
Cumulative translation adjustments		—	(8,542)	(31,155)	12,480	(127,043)	(109,016)
Net loss not recognized as pension cost		—	—	—	—	—	—
Total stockholders' equity	Basic	—	1,945,524	2,033,388	2,438,603	4,533,095	4,936,729
	Diluted	—	—	—	—	4,533,095	4,936,729

Note 1: The Company did not prepare 2006 pro forma consolidated financial statements.

Note 2: 2007 ~ 2008 pro forma consolidated financial statements and 2009 ~ 2010 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2011 were only examined by CPA.

Note 3: The 2010 earnings distribution still awaits the approval of shareholders' meeting. Thus the amounts before distribution (basic) are used to indicate the amounts after distribution (diluted) for the period.

## 2. Condensed statements of income

In 1,000 TWD

Item \ Year	Financial information, 2006 ~ 2010					Q1 2011 (Note 2)
	2006 (Note 1)	2007 (Note 2)	2008 (Note 2)	2009 (Note 2)	2010 (Note 2)	
Operating revenue	—	2,409,458	2,714,119	2,861,528	4,299,093	1,269,999
Gross profit	—	1,077,347	1,283,564	1,476,609	2,372,664	681,720
Operating income (loss)	—	605,495	600,610	778,974	1,362,936	447,380
Non-operating income and gain	—	61,580	16,353	45,335	75,794	17,465
Non-operating expenses and loss	—	69,910	92,758	80,746	53,843	10,956
Income before tax from continuing operations	—	597,165	524,205	743,563	1,384,887	453,889
After-tax income (loss) from continuing operations	—	505,425	415,967	550,215	1,049,947	336,674
Income (loss) on discontinued operations	—	—	—	—	—	—
Extraordinary items	—	—	—	—	—	—
Cumulative effect of change in accounting principle	—	—	—	—	—	—
Net income	—	505,425	415,967	550,215	1,049,947	336,674
Earnings per share (TWD) (Note 3)	—	3.72	2.68	3.45	7.76	2.22

Note 1: The Company did not prepare 2006 pro forma consolidated financial statements.

Note 2: 2007 ~ 2009 pro forma consolidated financial statements and 2010 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2011 were only examined by CPA.

Note 3: 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
2006	-(Note 1)	-(Note 1)	-(Note 1)
2007	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note 2)
2008	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note 2)
2009	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note 2)
2010	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Unqualified opinion

Note 1: The Company did not prepare 2006 pro forma consolidated financial statements.

Note 2: 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 (2006 ~ 2010)

Item \ Year		Financial analysis					Q1 2011 (Note 1)
		2006 (Note 2)	2007 (Note 1)	2008 (Note 1)	2009 (Note 1)	2010 (Note 1)	
Financial structure	Debt to asset ratio	—	47.81	50.46	44.32	32.44	25.92
	Long-term capital to fixed assets ratio	—	124.46	125.25	113.39	186.32	177.23
Solvency	Current ratio (%)	—	157.08	182.66	127.70	287.02	372.65
	Quick ratio (%)	—	98.18	104.44	87.85	233.21	280.73
	Times interest earned ratio	—	9.73	7.68	13.75	30.31	63.36
Operating ability	Accounts receivable turnover ratio (times)	—	4.82	4.69	4.47	4.85	4.54
	Average collection period (days)	—	75.72	77.82	81.65	75.25	80.39
	Inventory turnover ratio (times)	—	3.43	2.62	2.41	2.99	2.98
	Accounts payable turnover ratio (times)	—	4.72	6.51	9.14	8.97	8.74
	Average days to sell inventory	—	106.33	139.32	151.45	122.07	122.48
	Fixed asset turnover ratio (times)	—	1.26	1.13	1.12	1.54	1.63
	Total asset turnover ratio (times)	—	0.65	0.66	0.65	0.64	0.76
Profitability	Return on total assets (%)	—	17.73	12.12	14.00	19.64	5.12
	Return on stockholders' equity (%)	—	32.07	20.91	24.61	30.12	7.11
	% of paid-in capital (%)	Operating income	—	93.59	92.83	120.40	90.86
		Income before income tax	—	92.30	81.02	114.92	92.33
	Net income ratio (%)	—	20.98	15.33	19.23	24.42	26.51
	Earnings per share (NTD)	—	3.72	2.68	3.45	7.76	2.22
Cash flow	Cash flow ratio (%)	—	24.36	65.67	50.82	81.41	8.77
	Cash flow adequacy ratio (%)	—	Note 3	Note 3	Note 3	Note 3	Note 3
	Cash reinvestment ratio (%)	—	5.26	6.60	2.50	17.52	1.22
Leverage	Operating leverage	—	1.23	1.28	1.23	1.14	1.12
	Financial leverage	—	1.13	1.15	1.08	1.04	1.02

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% or more):

1. Debt to asset ratio changed by 27%, mainly due to cash capital increase undertaken in 2010 that resulted in increase in bank deposits. The acquisition of fixed assets to expand the operations also led to greater increase in assets over liabilities.
2. Cash capital increase undertaken in 2010 resulted in increase in stockholders' equity. Long-term capital to fixed assets ratio also rose as long-term capital increased.
3. Current ratio and quick ratio increased mainly due to cash capital increase undertaken in 2010 that lead to increase in bank deposits.

4. Change in times interest earned ratio was due to expansion in operations that led to significant increase in net income after tax while interest expenses in the two period did not vary much.
5. Expansion in operations led to increase in operating cost. As the magnitudes of increase in inventories and accounts payable were relatively smaller, the inventory turnover ratio increased as a result.
6. The revenue in 2010 grew 50% while fixed assets rose only moderately by 10%. As a result, fixed asset turnover ratio increased.
7. Increase in return on total assets was due to expansion of operations in 2010 that led to significant increase in net income after tax.
8. Increase in return on stockholders' equity was due to expansion of operations that led to significant increase in net income after tax, and in addition, cash capital increase in 2010 that also led to rise of average stockholders' equity.
9. The revenue in 2010 grew about 50%. Operating profit and net income after tax rose as a result. Thus operating income as a percentage of paid-in capital and net income ratio also increased moderately.
10. Increase in cash flow ratio was mainly due to jump in revenue and net income after tax and increase in net cash inflow from operating activities.
11. Aside from increase in net cash inflow from operating activities, cash capital increase undertaken in 2010 boosted the working capital, which in turn led to increase in cash reinvestment ratio.

Note 1: 2007 ~ 2009 pro forma consolidated financial statements and 2010 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2011 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 =  $(\text{net operating revenue} - \text{variable operating costs and expenses}) / \text{operating income}$  (Note 6).

(2) Financial leverage =  $\text{Operating income} / (\text{operating income} - \text{interest expense})$ .

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

We have examined the 2010 consolidated financial statements, together with business report and earnings distribution proposal prepared by the Board of Directors and audited and certified by certified public accountants Jacky M. Chen and K.W. Lai of Deloitte & Touche 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

2010 General Shareholders' Meeting

AirTAC International Group

Independent Director: 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; %

Item	Year	2009	2010	Difference	
				Amount	%
Current assets		1,711,428	3,751,021	2,039,593	119
Funds and long-term investments		—	—	—	—
Fixed assets		2,544,151	2,790,964	246,813	10
Intangible assets		84,417	126,109	41,692	49
Other assets		39,647	41,914	2,267	6
Total Assets		4,379,643	6,710,008	2,330,365	53
Current liabilities		1,340,167	1,306,903	(33,264)	(2)
Long-term liabilities		446,171	666,939	220,768	49
Other liabilities		154,702	203,071	48,369	31
Total liabilities		1,941,040	2,176,913	235,873	12
Capital stock		647,000	1,500,000	853,000	132
Capital surplus		1,642,892	1,991,694	348,802	21
Retained earnings		7,063	1,046,373	1,039,310	14,715
Cumulative translation adjustment		12,480	(127,043)	(139,523)	(1,118)
Total stockholders' equity		2,438,603	4,533,095	2,094,492	86
Reasons for significant changes: (Change in amount exceeding 10% and the amount accounting for 1% or more of year's total assets)					
1. Change in total assets was mainly due to issues of new shares for cash capital increase that led to increase in current assets – bank deposits.					
2. Change in total stockholders' equity was mainly due to issue of new shares for cash capital increase that led to increase in capital stock and capital surplus. In addition, because the Company was incorporated on 2009.9.16, the 2009 profit (loss) was relatively small. The retained earnings were also smaller as a result.					



## 7.2 Operating Performance

### 7.2.1 Analysis of operating performance

Unit: TWD 1,000; %

Item \ Year	2009	2010	Change	
			Amount	%
Total sales revenue	2,862,186	4,300,620	1,438,434	50
Net sales revenue	2,861,528	4,299,093	1,437,565	50
Operating cost	1,384,919	1,926,429	541,510	39
Gross profit	1,476,609	2,372,664	896,055	61
Operating expense	697,635	1,009,728	312,093	45
Operating income	778,974	1,362,936	583,962	75
Non-operating income	45,335	75,794	30,459	67
Non-operating expense	80,746	53,843	(26,903)	(33)
Net income before tax	743,563	1,384,887	641,324	86
Less: Income tax expense	193,348	334,940	141,592	73
Net income after tax	550,215	1,049,947	499,732	91
Note: Analysis was conducted based on amounts provided in CPA-audited 2009 pro forma financial statements. (Change in amount exceeding 10% and the amount accounting for 1% or more of year's total assets) 1. Changes in operating income, operating costs and gross profit were due to continued growth in sales revenue in 2010 that led to increase in related operating costs and gross profit.				

## 7.3 Cash Flows

### 1. Cash flows analysis

Unit: TWD 1,000; %

Item \ Year	2009	2010	Amount of increase (decrease)	Increase (decrease) (%)
Inflow from operating activities	681,115	1,063,949	382,834	56
Outflow in investing activities	149,121	676,591	527,470	353
Inflow (outflow) in financing activities	(520,699)	1,282,417	1,803,116	346
Note: Analysis was conducted based on amounts provided in CPA-audited 2009 pro forma financial statements. Change analysis: 1. Increase in net cash inflow from operating activities was mainly due to jump in sales revenue by 50% in 2010 that boosted the net income after tax. 2. Increase in net cash outflow in operating activities was mainly due to expansion of operations that led to acquisition of fixed assets. 3. Increase in net cash inflow in financing activities was mainly due to cash capital increase undertaken in 2010.				

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

The Company has formulated several capital spending plans for 2011. The anticipated profit growth in 2011 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 for 2011.

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

The Company acquired TWD 131,339,000 and TWD 615,338,000 of fixed assets in

2009 and 2010, 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	2008	2009	2010
Fixed asset turnover ratio (times)	1.13	1.12	1.54
Total asset turnover ratio (times)	0.66	0.65	0.64

#### 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	549,267	Profit comes mainly from recognition of profit from investees Ningbo AirTAC and Gaungdong AirTAC.
Airtac Trading (Hong Kong) Limited	496,128	Profit comes mainly from recognition of profit from investees Jianliang (Shanghai).
Instant Reach International Limited	6,220	Profit comes mainly from recognition of profit from investees AirTAC Industrial Co. and ATC(ITALIA) S.R.L.
Ningbo AirTAC Automatic Industrial Co.	356,068	Expansion of operations.
Guangdong AirTAC Automatic Industrial Co.	233,903	Expansion of operations.
Jianliang (Shanghai) Trading Co.	528,791	Expansion of operations.
AirTAC Industrial Co.	10,822	Expansion of operations.

Investee	Profit (loss) in the most recent year	Remark
ATC (ITALIA) S.R.L	(2,957)	The operation has not reached economy of scale.

### 3. Investment plan for the coming year

The Company will establish the Southeast Asia headquarters and a basic processing plant in Singapore in 2011 and set up sales offices in other parts of Southeast Asia to expand operations and increase overseas market shares.

## 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 2009 and 2010 was TWD 58,302,000 and TWD 47,249,000 respectively, accounting for respectively 7.48% and 3.47% 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 2007 ~ 2010 was \$1,324,000, \$(8,862,000), \$(14,501,000) and \$35,986,000 respectively, accounting for a very low percentage of the year's operating profit, at 0.22%, (1.48)%, (1.86)%, and 2.64% 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 2009 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. By 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 1.81%, 3.06%, and 2.41% 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 First, Commitments, Benefit Sharing and Mutual 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 and start mass production in the fourth quarter of 2011. 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 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
Airtac Industrial (Hong Kong) Limited	2008.11.10	Suites 2302-6, 23/F., Great Eagle Ctr., Harbour Road, Wanchai, Hong Kong	USD 26,000	General investment
Instant Reach International Limited	2008.11.10	Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong	USD 7,416	General investment
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
Ningbo AirTAC Automatic Industrial Co.	2001.08.16	No. 1, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China	USD 20,000	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
ATC (ITALIA) S.R.L.	2008.06.10	Via San Vittore 16, 20123 Milano, Italy	EUR 2,000	Sales of cylinders, valves and air preparation components
AirTAC Industrial Co.	2008.06.10	23 Ziyou Road, Tucheng City, Taipei County	TWD 230,000	Production and sales of cylinders

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 Trading (Hong Kong) Limited	Chairman	Wang Shih-Chung	203,910	100.00%
Airtac Industrial (Hong Kong) Limited	Chairman	Wang Shih-Chung	757,385	100.00%
Instant Reach International Limited	Chairman	Wang Shih-Chung	216,028	100.00%
	Director	Wang Hai-Ming	216,028	100.00%
	Director	Shih Ming-Te	216,028	100.00%
Jianliang (Shanghai) Trading Co.	Chairman	Wang Shih-Chung	203,910	100.00%
	President/ Director	Lin Chiang-Ti	203,910	100.00%
	Director	Gordon Shaw	203,910	100.00%
	Director	Wang Hai-Ming	203,910	100.00%
	Director	Wang Hong-Bing	203,910	100.00%
	Supervisor	Lin Yong-Feng	203,910	100.00%
Ningbo AirTAC Automatic Industrial Co.	Chairman	Wang Shih-Chung	582,600	100.00%
	President	Li Hui-Wen	582,600	100.00%
	Director	Lin Yong-Feng	582,600	100.00%
	Director	Wang Hai-Ming	582,600	100.00%
	Director	Wang Shan-Wen	582,600	100.00%
	Director	Lin Chiang-Ti	582,600	100.00%
	Supervisor	Gordon Shaw	582,600	100.00%
Guangdong AirTAC Automatic Industrial Co.	Chairman	Wang Shih-Chung	174,780	100.00%
	President/ Director	Lin Yong-Feng	174,780	100.00%
	Director	Wang Hai-Ming	174,780	100.00%
	Director	Wang Shan-Wen	174,780	100.00%
	Director	Lin Chiang-Ti	174,780	100.00%
	Supervisor	Gordon Shaw	174,780	100.00%
ATC (ITALIA) S.R.L.	Chairman	Wang Shih-Chung	77,840	100.00%
	President	Chou Chi-Li	77,840	100.00%
	Director	Lin Chiang-Ti	77,840	100.00%
	Director	Wang Shan-Wen	77,840	100.00%
AirTAC Industrial Co.	Chairman	Wang Shih-Chung	139,603	53.66%
	President/ Director	Yang Kuo-Yi	139,603	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%

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

Converted to TWD 1,000 based on exchange rate as of 2010.12.31.

### 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	203,910	890,972	31,147	859,825	-	(112)	496,128	Note 1
Airtac Industrial (Hong Kong) Limited	757,380	2,015,844	73,115	1,942,730	-	(743)	549,267	Note 1
Instant Reach International Limited	216,028	337,589	-	337,589	8,136	(37)	6,220	Note 1
Jianliang (Shanghai) Trading Co.	203,910	1,446,598	557,389	889,210	3,691,473	664,062	528,791	Note 1
Ningbo AirTAC Automatic Industrial Co.	582,600	2,608,453	1,199,029	1,409,424	2,324,258	564,783	443,816	Note 1
Guangdong AirTAC Automatic Industrial Co.	174,780	759,531	117,646	641,885	944,694	287,182	249,913	Note 1
ATC (ITALIA) S.R.L.	77,840	155,633	113,345	42,288	51,423	(26,710)	(13,458)	Note
AirTAC Industrial Co.	230,000	830,057	566,633	263,424	416,189	22,736	22,981	1.00

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 201012.31.

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, 2010 and December 31, 2009, 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, 2010 and 2009, and the results of their operations and their cash flows for 2010 and during the period of September 16 (Company's date of incorporation) ~ December 31, 2009.

Deloitte & Touche  
Jacky M. Chen, CPA

K.W. Lai, CPA

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

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

March 10, 2011

AirTAC International Group and Subsidiaries  
CONSOLIDATED BALANCE SHEET  
Year Ended December 31, 2010 and 2009  
(In Thousands of Dollars, Except Par Value)

Code	ASSETS	2010.12.31			2009.12.31			Code	LIABILITIES AND STOCKHOLDERS' EQUITY	2010.12.31			2009.12.31		
		RMB	TWD	%	RMB	TWD	%			RMB	TWD	%	RMB	TWD	%
	Current Assets								Current Liabilities						
1100	Cash and cash equivalent (Note 4)	\$ 431,205	\$ 1,914,766	29	\$ 74,043	\$ 354,258	8	2100	Short-term loans (Notes 10 & 19)	\$ 136,949	\$ 608,122	9	\$ 18,959	\$ 90,711	2
1140	Notes and accounts receivable, net (Notes 2, 5, 18 and 19)	225,407	1,000,921	15	155,300	743,034	17	2110	Short-term notes and bills payable	-	-	-	2,107	10,079	1
1178	Other receivables	12,354	54,859	1	2,165	10,358	-	2140	Accounts and notes payable (Note 18)	57,242	254,184	4	36,640	175,303	4
120X	Inventories, net (Notes 2, 3 and 6)	157,385	698,870	10	111,092	531,520	12	2160	Income tax payable (Note 2)	16,365	72,668	1	10,680	51,097	1
1286	Deferred income tax assets - current (Notes 2 & 13)	6,437	28,582	-	3,449	16,502	1	2170	Accrued expenses	60,829	270,111	4	25,616	122,558	3
1298	Other current assets	11,942	53,023	1	11,654	55,756	1	2216	Dividends payable	-	-	-	9,694	46,383	1
11XX	Total current assets	844,730	3,751,021	56	357,703	1,711,428	39	2270	Current portion of long-term loans payable (Notes 11 & 19)	4,864	21,599	-	165,213	790,462	18
	Property, Plant and Equipment (Notes 2, 7 & 19)							2280	Other current liabilities	18,066	80,219	1	11,197	53,574	1
	Cost							21XX	Total current liabilities	294,315	1,306,903	19	280,106	1,340,167	31
1501	Land	38,054	168,979	2	37,296	178,441	4	24XX	Long-term loans (Notes 11 & 19)	150,194	666,939	10	93,253	446,171	10
1521	Buildings and structures	383,529	1,703,059	25	380,331	1,819,692	42	2810	Accrued pension liabilities (Notes 2 & 14)	22,615	100,420	1	18,404	87,864	2
1531	Machinery and equipment	238,751	1,060,174	16	168,696	807,127	18	2860	Deferred income tax liabilities						
1551	Transportation equipment	23,364	103,747	2	16,834	80,542	2		(Notes 2 & 13)	23,117	102,651	2	13,970	66,838	1
1561	Office equipemtn and miscellaneous	57,606	255,801	4	57,182	273,590	6	2XXX	TOTAL LIABILITIES	490,241	2,176,913	32	405,733	1,941,040	44
15X1	Total cost	741,304	3,291,760	49	660,339	3,159,392	72		STOCKHOLDERS' EQUITY (Notes 2 & 12)						
15X9	Less: accumulated depreciation	( 178,827 )	( 794,081 )	( 12 )	( 147,913 )	( 707,689 )	( 16 )	31XX	Stockholders' equity of parent company						
1670	Construction in progress and prepayment for equipment	562,477	2,497,679	37	512,426	2,451,703	56		Capital common stock - TWD 10 par value; authorized: 150,000,000 shares; Issued: 64,700,000 shares as of December 31, 2010 and 2009	315,759	1,500,000	22	135,228	647,000	15
15XX	Net property, plant and equipment	66,048	293,285	4	19,322	92,448	2	32XX	Capital surplus	448,529	1,991,694	30	343,378	1,642,892	38
	Intangible Assets (Notes 2, 8, 14 and 19)							3350	Undistributed earnings	235,643	1,046,373	16	1,476	7,063	-
1750	Cost of software	4,636	20,587	1	4,916	23,523	1	3420	Cumulative translation adjustment	( 6,569 )	( 127,043 )	( 2 )	2,730	12,480	-
1760	Goodwill	4,370	19,406	-	4,370	20,909	-		Total stockholders' equity of parent company	993,362	4,411,024	66	482,812	2,309,435	53
1770	Deferred pension cost	2,960	13,144	-	3,101	14,064	-	3610	Minority interest	27,490	122,071	2	26,997	129,168	3
1782	Land use right	16,433	72,972	1	5,418	25,921	1	3XXX	TOTAL STOCKHOLDERS' EQUITY	1,020,852	4,533,095	68	509,809	2,438,603	56
17XX	Total intangible assets	28,399	126,109	2	17,805	84,417	2		TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,511,093	\$ 6,710,008	100	\$ 915,542	\$ 4,379,643	100
	Other Assets														
1830	Deferred expenses (Notes 2&9)	5,857	26,009	1	6,807	32,568	1								
1860	Deferred income tax assets – non-current (Notes 2 & 13)	3,366	14,948	-	1,344	6,429	-								
1880	Others	216	957	-	135	650	-								
18XX	Total other assets	9,439	41,914	1	8,286	39,647	1								
1XXX	TOTAL ASSETS	\$ 1,511,093	\$ 6,710,008	100	\$ 915,542	\$ 4,379,643	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**

Year Ended December 31, 2010 and September 16 (date of incorporation) ~ December 31, 2009

(In Thousands of Dollars, except Earnings Per Share)

		2010			2009.09.16 (date of incorporation) ~ 2009.12.31		
Code		RMB	TWD	%	RMB	TWD	%
4110	Sales revenue (Notes 2 & 18)	\$ 968,499	\$ 4,300,620	100	\$ 22,053	\$ 105,513	100
4170	Less: Sales returns, discounts and allowances	( 344 )	( 1,527 )	-	-	-	-
4100	Net sales revenue	968,155	4,299,093	100	22,053	105,513	100
5000	Operating costs (Notes 15 & 18)	( 433,831 )	( 1,926,429 )	( 45 )	( 11,773 )	( 56,330 )	( 53 )
5910	Gross profit	534,324	2,372,664	55	10,280	49,183	47
	Operating expenses (Note 15)						
6100	Selling expenses	( 109,078 )	( 484,362 )	( 11 )	( 3,498 )	( 16,738 )	( 16 )
6200	Administrative expenses	( 94,936 )	( 421,561 )	( 10 )	( 3,476 )	( 16,631 )	( 16 )
6300	R&D	( 23,377 )	( 103,805 )	( 3 )	( 552 )	( 2,637 )	( 2 )
6000	Total operating expenses	( 227,391 )	( 1,009,728 )	( 24 )	( 7,526 )	( 36,006 )	( 34 )
6900	Operating profit	306,933	1,362,936	31	2,754	13,177	13
	Non-operating income						
7110	Interest income	515	2,288	-	13	64	-
7160	Exchange gain, net (Note 2)	8,104	35,986	1	-	-	-
7330	Government subsidy income	5,338	23,703	1	-	-	-
7480	Miscellaneous income	3,112	13,817	-	94	449	-
7100	Total non-operating income	17,069	75,794	2	107	513	-
	Non-operating expenses						
7510	Interest expenses	( 10,641 )	( 47,249 )	( 1 )	( 367 )	( 1,757 )	( 2 )
7530	Loss on disposal of fixed asset (Note 2)	( 1,316 )	( 5,842 )	-	-	-	-
7880	Miscellaneous expenses	( 169 )	( 752 )	-	( 327 )	( 1,564 )	( 1 )
7500	Total non-operating expenses	( 12,126 )	( 53,843 )	( 1 )	( 694 )	( 3,321 )	( 3 )
7900	Income before tax	311,876	1,384,887	32	2,167	10,369	10
8110	Income tax expense (Notes 2 & 13)	( 75,428 )	( 334,940 )	( 8 )	( 1,097 )	( 5,247 )	( 5 )
9600	Consolidated net income	\$ 236,448	\$ 1,049,947	24	\$ 1,070	\$ 5,122	5
	Attributed to:						
9601	Parent company's shareholders	\$ 234,167	\$ 1,039,818	24	\$ 1,476	\$ 7,063	7
9602	Minority interest	2,281	10,129	-	( 406 )	( 1,941 )	( 2 )
		\$ 236,448	\$ 1,049,947	24	\$ 1,070	\$ 5,122	5
		Before income tax expense			Before income tax expense		
Code		RMB	TWD		RMB	TWD	
	Consolidated earnings per share (Note 16)						
9750	Basic	\$ 2.31	\$10.25	\$ 1.75	\$ 7.76	\$ 0.02	\$ 0.10
9850	Diluted	\$ 2.31	\$10.24	\$ 1.75	\$ 7.75	\$ 0.02	\$ 0.10

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 STOCKHOLDERS' EQUITY  
Year Ended December 31, 2010 and September 16 (date of incorporation) ~ December 31, 2009

(In Thousands of Dollars)

	Capital common stock		Capital surplus		Undistributed earnings		Cumulative translation adjustment		Minority interest		Total stockholders' equity	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
BALANCE, JANUARY 1, 2009	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Effect of reorganization	135,228	647,000	343,378	1,642,892	-	-	-	-	27,098	129,651	505,704	2,419,543
Net income -2009.09.16 ~ 2009.12.31	-	-	-	-	1,476	7,063	-	-	( 406 )	( 1,941 )	1,070	5,122
Translation adjustment	-	-	-	-	-	-	2,730	12,480	305	1,458	3,035	13,938
BALANCE, DECEMBER 31, 2009	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 - 2010	-	-	-	-	234,167	1,039,818	-	-	2,281	10,129	236,448	1,049,947
Distribution of dividends from capital surplus	-	-	( 47,385 )	( 226,409 )	-	-	-	-	-	-	( 47,385 )	( 226,409 )
Capitalization of capital surplus	143,131	683,000	( 143,131 )	( 683,000 )	-	-	-	-	-	-	-	-
Cash capital increase	37,400	170,000	286,310	1,300,768	-	-	-	-	-	-	323,710	1,470,768
Endowment from shareholders	-	-	9,357	41,552	-	-	-	-	-	-	9,357	41,552
Translation adjustment	-	-	-	( 84,109 )	-	( 508 )	( 9,299 )	( 139,523 )	( 1,788 )	( 17,226 )	( 11,087 )	( 241,366 )
BALANCE, DECEMBER 31, 2010	<u>\$ 315,759</u>	<u>\$1,500,000</u>	<u>\$ 448,529</u>	<u>\$1,991,694</u>	<u>\$ 235,643</u>	<u>\$1,046,373</u>	<u>( \$ 6,569 )</u>	<u>( \$ 127,043 )</u>	<u>\$ 27,490</u>	<u>\$ 122,071</u>	<u>\$1,020,852</u>	<u>\$4,533,095</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  
Year Ended December 31, 2010 and September 16 (date of incorporation) ~ December 31, 2009  
(In Thousands of Dollars)

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Consolidated net income	\$ 236,448	\$ 1,049,947	\$ 1,070	\$ 5,122
Adjustments:				
Depreciation	39,697	176,272	1,739	8,321
Amortization	4,712	20,925	133	637
Bad debts	468	2,078	133	637
Loss on disposal of fixed assets	1,316	5,842	-	-
Loss on market price decline and obsolete and slow-moving inventories	1,201	5,333	1,771	8,475
Deferred income tax	11,585	51,443	( 53 )	( 256 )
Accrued pension liabilities	4,352	19,325	( 321 )	( 1,541 )
Net changes in operating assets and liabilities				
Accounts and notes receivable	( 70,575 )	( 313,388 )	7,838	37,502
Other receivables	( 10,189 )	( 45,244 )	( 128 )	( 612 )
Inventories	( 47,494 )	( 210,897 )	( 1 )	( 5 )
Other current assets	( 288 )	( 1,279 )	224	1,073
Accounts and notes payable	20,602	91,483	5,689	27,218
Income tax payable	5,685	25,244	-	-
Accrued expenses	35,213	156,363	174	830
Other current liabilities	6,869	30,502	( 703 )	( 3,364 )
Net cash provided by operating activities	<u>239,602</u>	<u>1,063,949</u>	<u>17,565</u>	<u>84,037</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Cash inflow from reorganization	-	-	45,090	215,732
Acquisition of fixed assets	( 138,574 )	( 615,338 )	( 4,526 )	( 21,658 )
Proceeds from disposal of fixed assets	784	3,481	-	-
Increase in intangible assets and other assets	( 14,578 )	( 64,734 )	( 1,962 )	( 9,385 )
Net cash provided by (used in) investing activities	<u>( 152,368 )</u>	<u>( 676,591 )</u>	<u>38,602</u>	<u>184,689</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase in short-term loans	117,990	523,935	-	-
Decrease in Long-term loans	( 103,408 )	( 459,183 )	-	-
Increase (decrease) in short-term notes payable	( 2,107 )	( 9,356 )	2,107	10,079
Cash capital increase	323,710	1,437,434	-	-
Distribution of dividends from capital surplus	( 47,385 )	( 210,413 )	-	-
Net cash provided by (used in) financing activities	<u>288,800</u>	<u>1,282,417</u>	<u>2,107</u>	<u>10,079</u>

(Continued)

(Continued)

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
Foreign exchange effects	( \$ 18,872 )	( \$ 109,267 )	\$ 15,769	\$ 75,453
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	357,162	1,560,508	74,043	354,258
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>74,043</u>	<u>354,258</u>	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 431,205</u>	<u>\$ 1,914,766</u>	<u>\$ 74,043</u>	<u>\$ 354,258</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid (excluding capitalized interest)	<u>\$ 9,248</u>	<u>\$ 41,066</u>	<u>\$ 317</u>	<u>\$ 1,519</u>
Income tax paid	<u>\$ 58,093</u>	<u>\$ 257,961</u>	<u>\$ 892</u>	<u>\$ 4,267</u>
NONCASH INVESTING AND FINANCING ACTIVITIES				
Current portion of long-term liabilities	<u>\$ 4,864</u>	<u>\$ 21,599</u>	<u>\$ 165,213</u>	<u>\$ 790,462</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  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Year Ended December 31, 2010 and September 16 (date of incorporation) ~ December 31, 2009  
(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, 2010 and 2009, the Company and subsidiaries combined had 2,619 and 2,204 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. In preparing consolidated financial statements in conformity with these guidelines and principles, the Company and subsidiaries are required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, allowance for decline in market value of inventories, depreciation of fixed assets, amortizations, income tax, pension expenses, and impairment of assets. Actual results could differ from those estimates for judgment of circumstances is involved.

Consolidation Overview

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, 2010 and 2009 was respectively RMB\$1 = TWD 4.4405 and RMB\$1 = TWD 4.7845.

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 2010 and for the period of September 16 (date of incorporation) ~ December 31, 2009 are as follows:

Name of investing company	Name of subsidiary	Ownership in 2010	Ownership in 2009	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 Trading (Hong Kong)	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%	-
Instant Reach International Limited	ATC (ITALIA) S.R.L	100%	100%	-
	AirTAC Industrial Co.	53.66%	53.66%	-

Instant Reach International Limited, AirTAC Industrial (Hong Kong) Limited and AirTAC Trading (Hong Kong) Limited 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 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.

#### 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.

### Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Sales are recognized when titles to products and significant risks of ownerships are transferred to customers, for the profit process has largely been completed and profit is realized or realizable. Sales are measured at fair value based on the price, including commercial discount and quantity discount negotiated with the buyer. However, for frequent sales transactions, selling price is considered an account receivable due within one year and discounted at an imputed rate when the variance between the fair value and the amount due from the buyer is small.

The allowances for doubtful accounts are provided on the basis of a review of the collectibility of individual receivables. The Company and subsidiaries periodically evaluates the collectibility of receivables based on the aging analysis of client's receivable and the value of collateral.

### 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.

### 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.

### 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.

#### 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.

#### 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.

#### 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.

#### 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.

#### 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 CHANGES AND EFFECTS



The Company and subsidiaries adopt the newly revised Statement of Financial Accounting Standards (SFAS) No. 10 of the Republic of China on “Inventories” starting January 1, 2009. Major revisions of SFAS No. 10 include: (1) inventories are measured at the lower of cost and net realizable value and should be compared item by item except for same class of inventories; (2) unallocated fixed overhead is recognized as current cost of goods sold; and (3) abnormal production costs of inventories and loss on value decline (or value recovery) should be allocated as cost of goods sold. This accounting change does not produce significant effect on the Company’s financial statements for the period of September 16 (date of incorporation) ~ December 31, 2009.

4. CASH AND CASH EQUIVALENTS

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Cash on hand	\$ 285	\$ 1,266	\$ 230	\$ 1,102
Checking and demand deposits	422,386	1,875,606	73,813	353,156
Foreign-currency deposits	<u>8,534</u>	<u>37,894</u>	<u>-</u>	<u>-</u>
	<u>\$ 431,205</u>	<u>\$1,914,766</u>	<u>\$ 74,043</u>	<u>\$ 354,258</u>

5. NOTES AND ACCOUNTS RECEIVABLE-NET

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Notes and accounts receivable	\$ 228,748	\$1,015,757	\$ 158,088	\$ 756,370
Less: allowance for doubtful accounts	( <u>3,341</u> )	( <u>14,836</u> )	( <u>2,788</u> )	( <u>13,336</u> )
	<u>\$ 225,407</u>	<u>\$1,000,921</u>	<u>\$ 155,300</u>	<u>\$ 743,034</u>

6. INVENTORIES- NET

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Raw materials	\$ 33,051	\$ 146,765	\$ 30,164	\$ 144,318
Work in progress	58,363	259,159	45,701	218,658
Finished goods	<u>65,971</u>	<u>292,946</u>	<u>35,227</u>	<u>168,544</u>
	<u>\$ 157,385</u>	<u>\$ 698,870</u>	<u>\$ 111,092</u>	<u>\$ 531,520</u>

Allowance for reduction of inventory to market as of year-end 2010 and 2009 was respectively RMB 6,813,000 (TWD 30,253,000) and RMB 5,574,000 (TWD 6,671,000).

Costs of goods sold related to inventories in 2010 and during the period of September 16 (date of incorporation) ~ December 31, 2009 were respectively RMB 433,831,000 (TWD 1,926,429,000) and RMB 11,773,000 (TWD 56,330,000), including

loss on market price decline and obsolete and slow-moving inventories in the amount of RMB 1,201,000 (TWD 5,333,000) and RMB 1,771,000 (TWD 8,475,000) respectively.

7. PROPERTY, PLANT AND EQUIPMEN – ACCUMULATED DEPRECIATION

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Buildings and structures	\$ 50,243	\$ 223,105	\$ 40,610	\$ 194,300
Machinery and equipment	83,241	369,629	69,941	334,633
Transportation equipment	34,954	155,215	8,418	40,277
Office equipment and miscellaneous	<u>10,389</u>	<u>46,132</u>	<u>28,944</u>	<u>138,479</u>
	<u>\$ 178,827</u>	<u>\$ 794,081</u>	<u>\$ 147,913</u>	<u>\$ 707,689</u>

Capitalized interest in 2010 was RMB 1,106,000 (TWD 4,911,000) at the capitalization rate of 5.83%.

Capitalized interest during the period of September 16 (date of incorporation) ~ December 31, 2009 was RMB 37,000 (TWD 177,000) at the capitalization rate of 1.93%-7.09%.

The pledge (collateralization) of fixed assets as of year-end 2010 and 2009 is detailed under Note 19.

8. INTANGIBLE ASSETS

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

2009.09.16 (date of incorporation) ~ 2009.12.31						
	Land use right		Goodwill		Costs of software	
	RMB	TWD	RMB	TWD	RMB	TWD
<u>Cost</u>						
Balance-beginning of period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reorganization effect	5,936	28,488	4,370	20,973	8,863	42,444
Increase in the period	-	-	-	-	40	191
Foreign currency effect	-	( 87)	-	( 64)	-	( 37)
Balance-end of period	<u>5,936</u>	<u>28,401</u>	<u>4,370</u>	<u>20,909</u>	<u>8,903</u>	<u>42,598</u>
<u>Accumulated amortization</u>						
Balance-beginning of period	-	-	-	-	-	-
Reorganization effect	( 514)	( 2,467)	-	-	( 3,949)	( 18,933)
Amortization	( 4)	( 19)	-	-	( 38)	( 183)
Foreign currency effect	-	6	-	-	-	41
Balance-end of period	<u>( 518)</u>	<u>( 2,480)</u>	<u>-</u>	<u>-</u>	<u>( 3,987)</u>	<u>( 19,075)</u>
End-of-period net amount	<u>\$ 5,418</u>	<u>\$ 25,921</u>	<u>\$ 4,370</u>	<u>\$ 20,909</u>	<u>\$ 4,916</u>	<u>\$ 23,523</u>

9. DEFERRED CHARGES

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
<u>Cost</u>				
Balance-beginning of period	\$ 6,807	\$ 32,568	\$ -	\$ -
Reorganization effect	-	-	6,784	32,508
Increase in the period	2,412	10,712	114	544
Current-period amortization	( 3,362)	( 14,929)	( 91)	( 401)
Foreign currency effect	-	( 2,342)	-	( 83)
Balance-end of period	<u>\$ 5,857</u>	<u>\$ 26,009</u>	<u>\$ 6,807</u>	<u>\$ 32,568</u>

10. SHORT-TERM BANK LOANS

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Unsecured loan	\$ 136,949	\$ 608,122	\$ 14,746	\$ 70,553
Note-secured loan	-	-	4,213	20,158
	<u>\$ 136,949</u>	<u>\$ 608,122</u>	<u>\$ 18,959</u>	<u>\$ 90,711</u>

Annual interest rate on short-term bank loans ranged between 1.20%-1.61% in 2010 and ranged between 1.88%-3.11% during the period of September 16 (date of incorporation) ~ December 31, 2009.

The pledged (collateralized) loans of the Company and subsidiaries as of year-end 2010 and 2009 is detailed under Note 19.8

11. LONG-TERM BANK LOANS

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Secured loan:				
Due in September 2012.	\$ 52,000	\$ 230,906	\$ -	\$ -
Secured loan:				
Due in April 2013.	35,000	155,418	-	-
Secured loan:				
Repay principal between November 2008 and August 2023 based on annuity method and pay interest on a monthly basis.	68,058	302,214	68,126	325,948
Secured loan:				
Due in September 2010.	-	-	159,000	760,736
Secured loan:				
Due in November 2011, and paid off early in October 2010.	-	-	15,000	71,768
Secured loan:				
Due in March 2012, and paid off early in November 2010.	-	-	14,000	66,983
Secured loan:				
Repay in 36 monthly installments starting from October 2009; paid in full in September 2010.	-	-	1,053	5,039
Secured loan:				
Repay in 36 monthly installments starting from October 2008; paid in full in September 2010.	-	-	1,287	6,159
	155,058	688,538	258,466	1,236,633
Less: Current portion of long-term loans	( 4,864 )	( 21,599 )	( 165,213 )	( 790,462 )
Total	<u>\$ 150,194</u>	<u>\$ 666,939</u>	<u>\$ 93,253</u>	<u>\$ 446,171</u>

Annual interest rate on long-term bank loans ranged between 1.63%-5.88% in 2010 and ranged between 5.67%-7.09% during the period of September 16 (date of incorporation) ~ December 31, 2009.

The pledged (collateralized) loans of the Company and subsidiaries as of year-end 2010 and 2009 is detailed under Note 19.

## 12. 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.

### Earnings distribution and dividend policy

According to the Company's Articles of Association, annual earnings shall be appropriated in the following order as determined by the board of directors after offsetting prior years' deficits:

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, 2010 employee cash bonus is estimated at RMB 4,516,000 (TWD 20,053,000) (3% of the year's earnings proposed to be distributed).

Employee cash bonus in during the period of September 16 (date of incorporation) ~ December 31, 2009 will not be distributed according to a resolution adopted in the general shareholders' meeting held on June 29, 2010.

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 general shareholders' meeting held on June 29, 2010 approved a proposal to distribute stock dividends in the amount of TWD 226,409,000 (US\$6,988,000) from capital surplus that has been passed by the board of directors in its meeting on May 27, 2010.

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.

### 13. 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	2010	2009.09.16 (date of incorporation) ~ 2009.12.31
AirTAC Industrial Co.	17%	25%
Jianliang (Shanghai) Trading Co., Ltd.	22%-25%	20-25%
Ningbo AirTAC Automatic Industrial Co.	15%	15%
Guangdong AirTAC Automatic Industrial Co.	12.5%	12.5%
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%

The following laws and regulations of the Republic of China amended and promulgated in 2010 and 2009 are applicable to AirTAC Industrial Co.:

- a. Article 39 of Income Tax Act amended in January 2009 extends the period of loss carryforwards from 5 years to 10 years.
- b. Article 5 of Income Tax Act amended in May 2009 reduces the business income tax rate from 25% to 20%.
- c. Article 5 of Income Tax Act amended in May 2010 reduces 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 2010 and 2009 was respectively the fourth year and the third year of the company's profit year. Thus Guangdong AirTAC Automatic Industrial paid half the tax due in 2010 and 2009.

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 2010 and 2009 and hence was 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:

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
Income tax due according to statutory tax rate	\$ 62,554	\$ 277,771	\$ 620	\$ 2,966
Tax effects of adjusted items				
Permanent difference	645	2,865	71	341
Temporary difference	1,420	6,306	409	1,955
R&D tax credit	( 467 )	( 2,074 )	( 14 )	( 68 )
Income tax payable	<u>\$ 64,152</u>	<u>\$ 284,868</u>	<u>\$ 1,086</u>	<u>\$ 5,194</u>

b. Income tax expense comprises the following:

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
Income tax expense - current	\$ 64,152	\$ 284,868	\$ 1,086	\$ 5,194
Income tax expense - deferred	11,585	51,443	( 53 )	( 256 )
10% tax on unappropriated retained earnings	-	-	52	249
Adjustment of prior years' income tax	( 309 )	( 1,371 )	12	60
	<u>\$ 75,428</u>	<u>\$ 334,940</u>	<u>\$ 1,097</u>	<u>\$ 5,247</u>

c. Deferred income tax assets comprise the following:

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Current				
loss on market price decline and obsolete and slow-moving inventories	\$ 1,204	\$ 5,345	\$ 817	\$ 3,907
Allowance for doubtful accounts	689	3,059	513	2,456
Others	4,544	20,178	2,119	10,139
	<u>\$ 6,437</u>	<u>\$ 28,582</u>	<u>\$ 3,449</u>	<u>\$ 16,502</u>

(Continued)

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Non-current				
Start-up cost	\$ 7	\$ 30	\$ 156	\$ 744
Excess pension cost	404	1,797	295	1,411
Loss carryforwards	<u>2,955</u>	<u>13,121</u>	<u>893</u>	<u>4,274</u>
	<u>\$ 3,366</u>	<u>\$ 14,948</u>	<u>\$ 1,344</u>	<u>\$ 6,429</u>

4. Deferred income tax liabilities comprise the following:

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
<u>Non-current</u>				
Tax withholding for dividends to be remitted out	<u>\$ 23,117</u>	<u>\$ 102,651</u>	<u>\$ 13,970</u>	<u>\$ 66,838</u>

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

#### 14. 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 2010 and during the period of September 16 (date of incorporation) ~ December 31, 2009 was RMB554,000 (TWD 2,460,000) and RMB63,000 (TWD 300,000), 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 and AirTAC Industrial (Hong Kong) Limited do not have employee retirement plan.

Pension related information under the defined benefit plan:

Net pension cost comprises the following:

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
Service cost	\$ 3,931	\$ 17,456	\$ 197	\$ 942
Interest cost	640	2,842	59	282
Loss on pension curtailment	-	-	26	128
Amortization	268	1,191	59	281
Expected return on plan assets	( 50 )	( 225 )	( 10 )	( 49 )
Service cost of previous period	-	-	( 55 )	( 265 )
	<u>\$ 4,789</u>	<u>\$ 21,264</u>	<u>\$ 276</u>	<u>\$ 1,319</u>

Allocation of pension and adjustment of accrued pension liabilities:

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Benefit obligation				
Vested	\$ 5,400	\$ 23,980	\$ 2,571	\$ 12,300
Non-vested	<u>10,633</u>	<u>47,213</u>	<u>9,592</u>	<u>45,619</u>
Accumulated benefit obligation	16,033	71,193	12,163	57,919
Additional benefits based on future salaries	<u>9,554</u>	<u>42,424</u>	<u>8,126</u>	<u>38,766</u>
Projected benefit obligation	25,587	113,617	20,289	96,685
Fair value of plan assets	( <u>2,663</u> )	( <u>11,826</u> )	( <u>2,292</u> )	( <u>10,881</u> )
Funded status	22,924	101,791	17,997	85,804
Unrecognized net transitional obligation	( 9,156 )	( 40,658 )	( 9,398 )	( 44,830 )
Unamortized actuarial losses	5,887	26,143	6,842	32,826
Additional accrued pension cost liabilities	<u>2,960</u>	<u>13,144</u>	<u>2,963</u>	<u>14,064</u>
Accrued pension cost liabilities	<u>\$ 22,615</u>	<u>\$ 100,420</u>	<u>\$ 18,404</u>	<u>\$ 87,864</u>
Vested obligation under defined benefit plan	<u>\$ 11,603</u>	<u>\$ 51,523</u>	<u>\$ 4,578</u>	<u>\$ 21,903</u>

Assumptions for pension benefit obligations:

	2010.12.31	2009.12.31
Discount rate	2.25%-4.25%	2.25%-4.00%
Future salary increase rate	2.00%-5.00%	2.00%-8.00%

0.00%-2.00%

## 15.

	2010					
	Cost of good sold		Operating expense		Total	
	RMB	TWD	RMB	TWD	RMB	TWD
Personnel expense						
Salaries	\$ 80,504	\$ 357,479	\$ 114,750	\$ 509,547	\$ 195,254	\$ 867,026
Pension costs	1,153	5,118	8,325	36,969	9,478	42,087
Others	10,998	48,837	21,451	95,254	32,449	144,091
Depreciation expense	25,850	114,786	13,847	61,486	39,697	176,272
Amortization expense	2,920	12,965	1,792	7,960	4,712	20,925
	2009.09.16 (date of incorporation) ~ 2009.12.31					
	Cost of good sold		Operating expense		Total	
	RMB	TWD	RMB	TWD	RMB	TWD
Personnel expense						
Salaries	\$ 2,250	\$ 10,767	\$ 3,240	\$ 15,501	\$ 5,490	\$ 26,268
Pension costs	247	1,184	284	1,358	531	2,542
Others	231	1,105	392	1,876	623	2,981
Depreciation expense	1,054	5,041	685	3,280	1,739	8,321
Amortization expense	66	315	67	322	133	637

## 16.

In &amp;

	2010				2009.09.16 (date of incorporation) ~ 2009.12.31			
	Before tax		After tax		Before tax		After tax	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Basic EPS	<u>\$ 2.31</u>	<u>\$10.25</u>	<u>\$ 1.75</u>	<u>\$7.76</u>	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>
Diluted EPS	<u>\$ 2.31</u>	<u>\$10.24</u>	<u>\$ 1.75</u>	<u>\$7.75</u>	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>

Data used in calculating earnings per share:

[illegible]

Consolidated net income attributed to parent company's shareholders	\$ 2,647	\$ 12,664	\$ 1,476	\$ 7,063	133,000	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>
Dilutive effect of common stock equivalent									
Employee bonus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>
Diluted EPS	<u>\$ 2,647</u>	<u>\$ 12,664</u>	<u>\$ 1,476</u>	<u>\$ 7,063</u>	<u>133,000</u>	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>

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.

When calculating earnings per share, the effect of capitalization of capital surplus approved in the general shareholders' meeting held on June 29, 2010 (see Note 12) has been taken into account in retroactive adjustment. The 2009 after-tax basic earnings per share of TWD 1.3 is decreased to TWD 0.05 due to retroactive adjustment.

## 17. FINANCIAL INSTRUMENTS

### (1) Fair values of financial instruments:

The Company and subsidiaries did not hold or issue any financial derivative instruments in 2010 and during the period of September 16 (date of incorporation) ~ December 31, 2009. However, the fair values of financial instruments are disclosed as follows pursuant to Statement of Financial Accounting Standards N. 36:

Non-derivative instrument	2010.12.31				2009.12.31			
	Carrying value		Fair value		Carrying value		Fair value	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Liabilities								
Long-term bank loans (including current portion)	\$ 155,058	\$ 688,538	\$ 155,058	\$ 688,538	\$ 258,466	\$ 1,236,633	\$ 258,466	\$ 1,236,633

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. Because the maturity dates of those instruments are close, their carrying values provide reasonable basis for the estimation of fair value.

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).

(2) 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 2010 and 2009, the Company and subsidiaries held financial assets with credit risk (including mainly notes receivable, accounts receivable and other receivable) in the amount of RMB237,761,000 (TWD1,055,780,00) and RMB157,465,000 (TWD753,392,000), 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 did not hold financial assets or financial liabilities exposed to fair value risk due to interest rate change as of year-end 2010 and 2009. As of year-end 2010 and 2009, financial assets exposed to cash flow risk due to interest rate change amounted to RMB430,920,000 (TWD 1,913,500,000) and RMB73,813,000 (TWD353,156,000), respectively, and financial liabilities exposed to the same risk amounted to RMB292,007,000 (TWD1,296,660,000) and RMB277,425,000 (TWD1,327,344,000), respectively.

# 18. 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 17, 2010).

## (2) Significant transactions with related parties

### a. Sale

	2010			2009.09.16 (date of incorporation) ~ 2009.12.31		
	Amount			Amount		
	<u>RMB</u>	<u>TWD</u>	<u>%</u>	<u>RMB</u>	<u>TWD</u>	<u>%</u>
Ningbo Comfort Health Equipment Co., Ltd.	\$ 1,316	\$ 5,843	-	\$ 56	\$ 269	-
Kunming AirTAC Automated Engineering Co., Ltd.	<u>4,479</u>	<u>19,890</u>	<u>-</u>	<u>60</u>	<u>287</u>	<u>-</u>
	<u>\$ 5,795</u>	<u>\$25,733</u>	<u>-</u>	<u>\$ 116</u>	<u>\$ 556</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 RMB2,311,000 (TWD 10,264,000).

### b. Purchase

	2010			2009.09.16 (date of incorporation) ~ 2009.12.31		
	Amount			Amount		
	<u>RMB</u>	<u>TWD</u>	<u>%</u>	<u>RMB</u>	<u>TWD</u>	<u>%</u>
Kunming AirTAC Automated Engineering Co., Ltd.	<u>\$ 347</u>	<u>\$ 1,542</u>	<u>-</u>	<u>\$ 6</u>	<u>\$ 31</u>	<u>-</u>

The 2010 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 RMB283,000 (TWD 1,257,000).

c. Accounts receivable

	2010.12.31			2009.12.31		
	Amount		%	Amount		%
	RMB	TWD		RMB	TWD	
Ningbo Comfort Health Equipment Co., Ltd.	\$ 232	\$ 1,031	-	\$ 219	\$ 1,046	-
Kunming AirTAC Automated Engineering Co., Ltd.	645	2,866	-	185	886	-
	<u>\$ 877</u>	<u>\$ 3,897</u>	<u>-</u>	<u>\$ 404</u>	<u>\$ 1,932</u>	<u>-</u>

The amount of account receivable from Kunming AirTAC Automated Engineering Co., Ltd. as of 2010.12.31 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).

4. Accounts payable

	2010.12.31			2009.12.31		
	Amount		%	Amount		%
	RMB	TWD		RMB	TWD	
Kunming AirTAC Automated Engineering Co., Ltd.	\$ -	\$ -	-	\$ 13	\$ 64	-

The amount of account payable to Kunming AirTAC Automated Engineering Co., Ltd. as of 2010.12.31 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 payable arising from purchase from 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

	2010		2009.09.16 (date of incorporation) ~ 2009.12.31	
	RMB	TWD	RMB	TWD
Salary	\$ 7,180	\$31,880	\$ 293	\$ 1,401

Reward and special allowance	1,370	6,084	70	335
Bonus	4,550	20,205	-	-
	<u>\$13,100</u>	<u>\$58,169</u>	<u>\$ 363</u>	<u>\$ 1,736</u>

#### 19. PLEDGED ASSETS

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

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Land	\$ 36,022	\$ 159,957	\$ 34,541	\$ 159,957
Buildings and structures-Net	236,671	1,050,937	259,729	1,202,806
Land use right	5,288	23,479	5,418	25,090
Notes receivable	-	-	7,100	32,879
	<u>\$ 277,981</u>	<u>\$1,234,373</u>	<u>\$ 306,788</u>	<u>\$ 1,420,732</u>

#### 20. COMMITMENTS AND CONTINGENT LIABILITIES

(1) As of year-end 2010 and 2009, non-cancellable operating leases and contracts entered by the Company and subsidiaries are as follows:

	2010.12.31		2009.12.31	
	RMB	TWD	RMB	TWD
Minimum rent payable under non-cancellable lease				
First year after date of balance sheet	\$ 4,380	\$ 20,927	\$ 2,736	\$ 12,673
Second year after date of balance sheet	2,318	11,075	1,647	7,626
Years thereafter	1,132	5,409	1,069	4,950
	<u>\$ 7,830</u>	<u>\$ 37,411</u>	<u>\$ 5,452</u>	<u>\$ 25,249</u>

(2) As of year-end 2010, the Company and subsidiaries had commitments in the amount of RMB308,480,000 (TWD 1,369,808,000) in relation to purchase of equipment and plant construction.

#### 21. FINANCIAL INFORMATION BY DEPARTMENT

(1) The Company and subsidiaries engage mainly in the manufacture and sales of pneumatic components and belong to the same industry.

(2) Financial information by region

	2010							
	Asia		Other regions		Adjustment and offset		Total	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Sales revenue from clients outside the consolidated entity	\$ 940,698	\$ 4,177,169	\$ 27,457	\$ 121,924	\$ -	\$ -	\$ 968,155	\$ 4,299,093
Sales revenue from companies inside the consolidated entity	687,126	3,051,183	14,766	65,568	( 701,892)	( 3,116,751)	-	-
Total revenue	<u>\$ 1,627,824</u>	<u>\$ 7,228,352</u>	<u>\$ 42,223</u>	<u>\$ 187,492</u>	<u>( \$ 701,892)</u>	<u>( \$ 3,116,751)</u>	<u>\$ 968,155</u>	<u>\$ 4,299,093</u>
Departmental profit	<u>\$ 334,146</u>	<u>\$ 1,483,775</u>	<u>\$ 9,753</u>	<u>\$ 43,309</u>	<u>( \$ 21,382)</u>	<u>( \$ 94,948)</u>	<u>\$ 322,517</u>	<u>\$ 1,432,136</u>
Interest expense	<u>( \$ 11,035)</u>	<u>( \$ 48,999)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 394</u>	<u>\$ 1,750</u>	<u>( 10,641)</u>	<u>( 47,249)</u>
Net income before tax of continuing operations	<u>\$ 1,271,172</u>	<u>\$ 5,644,640</u>	<u>\$ 35,049</u>	<u>\$ 155,633</u>	<u>( \$ 230,400)</u>	<u>( \$ 1,023,089)</u>	<u>\$ 311,876</u>	<u>\$ 1,384,887</u>
Identifiable assets							<u>\$ 1,075,821</u>	<u>\$ 4,777,184</u>
General assets							<u>435,272</u>	<u>1,932,824</u>
Total assets							<u>\$ 1,511,093</u>	<u>\$ 6,710,008</u>

	2009.09.16 (date of incorporation) ~ 2009.12.31							
	Asia		Others		Adjustment and offset		Total	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Sales revenue from clients outside the consolidated entity	\$ 21,552	\$ 103,117	\$ 501	\$ 2,396	\$ -	\$ -	\$ 22,053	\$ 105,513
Sales revenue from companies inside the consolidated entity	11,675	55,857	-	-	( 11,675)	( 55,857)	-	-
Total revenue	<u>\$ 33,227</u>	<u>\$ 158,974</u>	<u>\$ 501</u>	<u>\$ 2,396</u>	<u>( \$ 11,675)</u>	<u>( \$ 55,857)</u>	<u>\$ 22,053</u>	<u>\$ 105,513</u>
Departmental profit	<u>\$ 2,534</u>	<u>\$ 12,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,534</u>	<u>\$ 12,126</u>
Interest expense							<u>( 367)</u>	<u>( 1,757)</u>
Net income before tax of continuing operations	<u>\$ 532,846</u>	<u>\$ 2,549,397</u>	<u>\$ 16,272</u>	<u>\$ 77,855</u>	<u>( \$ 90,139)</u>	<u>( \$ 431,268)</u>	<u>\$ 2,167</u>	<u>\$ 10,369</u>
Identifiable assets							<u>\$ 458,979</u>	<u>\$ 2,195,984</u>
General assets							<u>456,563</u>	<u>2,183,659</u>
Total assets							<u>\$ 915,542</u>	<u>\$ 4,379,643</u>

To reconcile financial information by region with the amounts provided in financial statements, the amounts listed under “Adjustment and offset” are internally generated revenue from sales within the enterprise.

(3) Export sales information

In 2010 and during the period of September 16 (date of incorporation) ~ December 31, 2009, there were no regions to which export sales accounted for 10% of sales revenue as provided on statements of income.

(4) Significant client information

In 2010 and during the period of September 16 (date of incorporation) ~ December 31, 2009, there were no clients where sales to them accounted for 10% of sales revenue as provided on statements of income.

## 22. OTHERS

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

Unit: Foreign currency in thousands /RMB in thousands

	2010.12.31			2009.12.31		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Financial assets						
Currency						
TWD	\$ 384,081	0.2252-0.2260	\$ 86,668	\$ 113,437	0.2205	\$ 25,008
USD	44,670	6.56-6.62	294,479	4,386	6.83	29,945



(Continued)

	2010.12.31			2009.12.31		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Euro	\$ 1,519	8.76-8.81	\$ 13,358	\$ 907	9.80-9.81	\$ 8,890
HKD	259	0.8481	219	-	-	-
Financial liabilities						
<u>Currency item</u>						
TWD	514,110	0.2252	115,778	481,339	0.2107- 02144	101,409
USD	17,604	6.56-6.66	115,989	1,797	6.74-6.83	12,261
Euro	177	8.76	1,550	739	9.80-9.87	7,290
Japanese Yen	5,800	0.0807	468	-	-	-

## 23. 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	Table 5
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 6
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 7
9	Receivables from related parties exceeding TWD 100 million or 20% of paid-in capital	Table 8
10	Derivatives transactions	None

(3) Information on Mainland China investment:

No.	Item	Remark
1	Names, locations and related information of investees in Mainland China	Table 9
2	Significant transactions with China investee directly or indirectly through a third-area enterprise	Table 7
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
5	Other transactions with material influence on current profit/loss or financial conditions	None

AirTAC International Group and Subsidiaries  
Loans to Others  
2010

Table 1Unit: \$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 25,000 (TWD 728,250) (Note 1)	USD 25,000 (TWD 728,250) (Note 1)	1.79	Short-term financing needs	\$ -	Revolving fund	\$ -	-	-	\$ 397,345	\$ 1,764,410	\$ 397,345	\$ 1,764,410
2	AirTAC International Group	ATC (Italia) S.R.L	Other receivables	EUR 2,000 (TWD 77,840) (Note 2)	EUR 2,000 (TWD 77,840) (Note 2)	0~1.20	Short-term financing needs	-	Refund fund	-	-	-	397,345	1,764,410	397,345	1,764,410

Note 1: Amount actually drawn down in the period was USD14,500,000.

Note 2:Amount actually drawn down in the period was EUR2,000,000.

Note 3: Conversion to TWD used the spot exchange rate on 2010.12.31, that is, 1USD=29.13TWD , 1EUR=38.92TWD.

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  
2010

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 Network 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	\$ 397,345	\$ 1,764,410	USD 6,000 ( TWD 174,780)	USD 6,000 ( TWD 174,780)	\$ -	4	\$ 496,681	\$ 2,205,512
2	AirTAC Industrial Co.	AirTAC International Group	Parent company	198,672	882,205	USD 12,500 ( TWD 364,125 )	USD 12,500 ( TWD 364,125 )	-	8	496,681	2,205,512

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

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

Note 3: Conversion to TWD used the spot exchange rate on 2010.12.31, that is, 1USD=29.13TWD.

AirTAC International Group and Subsidiaries  
Marketable Securities Held at End of Period  
2010.12.31

Table 3

Unit: \$1,000

Holder	Type an Name of Security	Relationship with Issuer	Financial Statement Account	Shares	2010.12.31					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	\$ 428,694	\$ 1,903,618	100	\$ 428,694	\$ 1,903,618	
	AirTAC Trading (Hong Kong) Limited	Subsidiary	Investments accounted for using equity method	7,000,000	193,881	860,929	100	193,881	860,929	
	Instant Reach International Limited	Subsidiary	Investments accounted for using equity method	1	50,358	223,613	100	50,358	223,613	
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	Subsidiary	Investments accounted for using equity method	(Note 1)	294,438	1,307,450	100	294,438	1,307,450	
	Guangdong AirTAC Automatic Industrial Co.	Subsidiary	Investments accounted for using equity method	(Note 1)	139,260	618,385	100	139,260	618,385	
AirTAC Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	Subsidiary	Investments accounted for using equity method	(Note 1)	200,250	889,210	100	200,250	889,210	
Instant Reach International Limited	AirTAC Industrial Co.	Subsidiary	Investments accounted for using equity method	12,340,650	40,313	179,008	53.66	67,803	301,079	
	ATC (Italia ) S.R.L	Subsidiary	Investments accounted for using equity method	2,000,000	9,341	41,480	100	9,341	41,480	

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  
2010

Table 4

Unit: \$1,000

Investor Company	Investee Company	Location	Main Businesses	Original Investment		Balance as of December 31, 2010				Net Income (Loss) of Investee for the Period		Investee Gain (Loss) Recognized for the Period		Note		
				2010.12.31 (Note 1)	2009.12.31 (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 26,000 (TWD 757,380)	USD 26,000 (TWD 757,380)	26,000,000	100	\$ 428,694	\$ 1,903,618	\$ 123,695	\$ 549,267	\$ 123,695	\$ 549,267			
	AirTAC Trading (Hong Kong) Limited	Hong Kong	General investment	USD 7,000 (TWD 203,910)	USD 7,000 (TWD 203,910)	7,000,000	100	193,88	860,929	111,728	496,128	111,728	496,128			
	Instant Reach International Limited	British Virgin Island	General investment and international trade	USD 7,416 (TWD 216,028)	USD 6,604 (TWD 192,378)	1	100	50,35	223,613	1,401	6,220	1,401	6,220			
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	Jejiang China	Production of pneumatic control components and auxiliary components	USD 20,000 (TWD 582,600)	USD 20,000 (TWD 582,600)	-	100	294,43	1,307,450	99,947	443,816					
	Guangdong AirTAC Automatic Industrial Co.	Guangdong China	Production of pneumatic control components and auxiliary components	USD 6,000 (TWD 174,780)	USD 6,000 (TWD 174,780)	-	100	139,26	618,385	56,280	249,913					
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 203,910)	USD 7,000 (TWD 203,910)	-	100	200,25	889,210	119,084	528,791					
Instant Reach International Limited	AirTAC Industrial Co.	Tucheng District, New Taipei City	Processing, sales and import/export of machines and components	TWD 139,603	TWD 139,603	12,340,650	53.66	40,31	179,008	4,923	21,859					
	ATC (Italia) S.R.L	Via Mauro Macchi n.27, 20124 Milano (MI)	Production and sales of pneumatic and hydraulic control components	EUR 2,000 (TWD 77,840)	EUR 1,400 (TWD 54,488)	2,000,000	100	9,34	41,480	( 3,031)	( 13,458)					

Note 1: Conversion to TWD used the spot exchange rate on 2010.12.31, that is, 1USD=29.13TWD, 1EUR=38.92TWD.

AirTAC International Group and Subsidiaries  
Loans to Others (Investees)  
2010

Table 5Unit: \$1,000

No.	Lender	Borrower	Financial Statement Account	Highest Balance for the Period		Ending Balance	Interest Rate (%)	Nature of Financing	Transaction amount	Reason for Short-term Financing	Allowance for Bad Debt Item	Collateral		Maximum Amount of Loans to Single Borrower (Note 1)		Maximum Amount of Loans to Others Allowed for Lender (Note 1)	
				RMB	TWD							Value	RMB	Item	Value	RMB	TWD
1	Jianliang (Shanghai) Trading Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	Other receivables	\$ 35,000	\$ 155,418	\$ -	-	Short-term financing needs	\$ -	Revolving fund	\$ -	無	-	\$ 397,345	\$1,764,410	\$ 397,345	\$1,764,410

Note 1: 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

Acquisition of Real Estate Exceeding TWD 100 million or 20% of Paid-in Capital by Investees

Table 6

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 (Recorded under Construction in progress and prepayment for equipment)	2010.12.31	\$ 42,031	\$ 186,640	N/A	Self building	-	-	-	-	\$ -	N/A	As land for building company's administration building	



AirTAC International Group and Subsidiaries  
Purchase/sale Transactions with Related Parties Exceeding TWD 100 Million or 20% of Paid-in Capital  
2010

Table 7 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			RMB	TWD				
Ningbo AirTAC Automatic Industrial Co.	Guangdong AirTAC Automatic Industrial Co.	Same ultimate parent company	Sale	\$ 74,152	\$ 329,274	14	T/T 60 days	-	-	\$ 7,802	\$ 34,645	14	
	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	Sale	368,947	1,638,310	70	T/T 60 days	-	-	30,552	135,667	53	
Guangdong AirTAC Automatic Industrial Co.	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	Sale	185,393	823,237	87	T/T 60 days	-	-	42,456	188,527	87	

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  
2010.12.31

Table 8Unit: \$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	\$ 30,552	\$ 135,667	14	\$ -	-	\$ 30,552	\$ 135,667	\$ -
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  
2010

Table 9Unit: \$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 20,000 (TWD 582,600)	N/A	N/A	\$ -	\$ -	N/A	100	\$ 80,186 2.(1)	\$ 356,068	\$ 294,438	\$ 1,307,450	N/A
Guangdong AirTAC Automatic Industrial Co.	Production of pneumatic control components and auxiliary components	USD 6,000 (TWD 174,780)	N/A	N/A	-	-	N/A	100	52,675 2.(1)	233,903	139,260	618,385	N/A
Jianliang (Shanghai) Trading Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 7,000 (TWD 203,910)	N/A	N/A	-	-	N/A	100	119,084 2.(1)	528,791	200,250	889,210	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 2010.12.31, that is, 1USD=29.13TWD.

AirTAC International Group and Subsidiaries  
Intercompany Relationships and Significant Transactions  
2010

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	135,667	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 receivables	20	89	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Non-operating expense	120	533	General terms and conditions	-
2	Ningbo AirTAC Automatic Industrial Co.	Guangdong AirTAC Automatic Industrial Co.	3	Operating expense	34	152	General terms and conditions	-
		AirTAC International Group	2	Other payables	95,551	424,293	General terms and conditions	6%
		AirTAC International Group	2	Other current liabilities	384	1,704	General terms and conditions	-
		AirTAC International Group	2	Non-operating expense	394	1,750	General terms and conditions	-
		AirTAC Industrial (Hong Kong) Limited	2	Accrued dividends	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.	3	Sales revenue	21,598	95,905	General terms and conditions	2%
		AirTAC Industrial Co.	3	Costs of goods sold	10,817	48,033	General terms and conditions	1%
		AirTAC Industrial Co.	3	Accounts receivable	4,483	19,906	General terms and conditions	-
		AirTAC Industrial Co.	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 payables	20	89	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Non-operating income	154	685	General terms and conditions	-
		AirTAC Industrial Co.	3	Sales revenue	11,781	52,312	General terms and conditions	1%
		AirTAC Industrial Co.	3	Costs of goods sold	454	2,016	General terms and conditions	-
		AirTAC Industrial Co.	3	Accounts receivable	1,901	8,443	General terms and conditions	-
		AirTAC Industrial Co.	3	Other payables	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 receivables	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 receivables	1	3	General terms and conditions	-
5	ATC (Italia) S.R.L	AirTAC International Group	2	Other payables	17,514	77,769	General terms and conditions	1%
		Instant Reach International Limited	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.	3	Costs of goods sold	192	851	General terms and conditions	-
		AirTAC Industrial Co.	3	Other payables	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 Limited	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 receivables	95,551	424,293	General terms and conditions	6%
		Ningbo AirTAC Automatic Industrial Co.	1	Interest 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 receivables	17,514	77,769	General terms and conditions	1%
		AirTAC Industrial (Hong Kong) Limited	1	Other payables	6,888	30,587	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Dividends receivable	11,031	48,982	General terms and conditions	1%
8	AirTAC Industrial (Hong Kong) Limited	AirTAC International Group	2	Other receivables	6,888	30,587	General terms and conditions	-

- 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  
September 16 (Date of Incorporation) ~ December 31, 2009

Table 11

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	\$ 3	\$ 16	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	6,173	29,535	General terms and conditions	28%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	9	41	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	22,651	108,374	General terms and conditions	2%
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	1	3	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	3,250	15,552	General terms and conditions	15%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts receivable	20	96	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	29,471	141,004	General terms and conditions	3%
2	Ningbo AirTAC Automatic Industrial Co.	Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	1,132	5,416	General terms and conditions	5%
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	259	1,240	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts receivable	5,727	27,402	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	893	4,274	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	6,173	29,535	General terms and conditions	28%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	3	16	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	22,651	108,374	General terms and conditions	2%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts payable	9	41	General terms and conditions	-
3	Guangdong AirTAC Automatic Industrial Co.	AirTAC Industrial Co.	3	Sales revenue	80	382	General terms and conditions	-
		AirTAC Industrial Co.	3	Costs of goods sold	454	2,173	General terms and conditions	2%
		AirTAC Industrial Co.	3	Accounts receivable	2,742	13,119	General terms and conditions	-
		AirTAC Industrial Co.	3	Accounts payable	3,634	17,389	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	129	616	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Accounts receivable	3,095	14,806	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	259	1,240	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	1,132	5,416	General terms and conditions	5%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	893	4,274	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	5,727	27,402	General terms and conditions	1%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	3,250	15,552	General terms and conditions	15%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	1	3	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	29,471	141,004	General terms and conditions	3%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts payable	20	96	General terms and conditions	-

(Continued)

(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Financial Statement Account	Transaction Details			
					Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
4	AirTAC Industrial Co.	AirTAC Industrial Co.	3	Sales revenue	\$ 40	\$ 189	General terms and conditions	-
		AirTAC Industrial Co.	3	Costs of goods sold	63	302	General terms and conditions	-
		AirTAC Industrial Co.	3	Accounts receivable	1,352	6,469	General terms and conditions	-
		AirTAC Industrial Co.	3	Accounts payable	521	2,492	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	91	433	General terms and conditions	-
		ATC (Italia) S.R.L	3	Accounts receivable	2,008	9,605	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	454	2,173	General terms and conditions	2%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	80	382	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	3,634	17,389	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	2,742	13,119	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	63	302	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	40	189	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts receivable	521	2,492	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	1,352	6,469	General terms and conditions	-
5	ATC (Italia) S.R.L	Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	129	616	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	3,095	14,806	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	91	433	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	2,008	9,605	General terms and conditions	-

Note: 1.Parent company to subsidiary.

2.Subsidiary to parent company.

3.Subsidiary to subsidiary.



## AirTAC International Group and Subsidiaries

## Consolidated Statements of Income

Year Ended December 31, 2010 and September 16 ~ December 31, 2009

Table 12

Unit: \$1,000

	2010		2009 (Pro Forma)	
	RMB	TWD	RMB	TWD
Sales revenue	\$ 968,499	\$ 4,300,620	\$ 598,220	\$ 2,862,186
Less: Sales returns, discounts and allowances	( 344 )	( 1,527 )	( 137 )	( 658 )
Net sales revenue	968,155	4,299,093	598,083	2,861,528
Operating costs	( 433,831 )	( 1,926,429 )	( 289,460 )	( 1,384,919 )
Gross profit	<u>534,324</u>	<u>2,372,664</u>	<u>308,623</u>	<u>1,476,609</u>
Operating expenses				
Selling expenses	( 109,078 )	( 484,362 )	( 68,548 )	( 327,967 )
Administrative expenses	( 94,936 )	( 421,561 )	( 58,974 )	( 282,163 )
R&D	( 23,377 )	( 103,805 )	( 18,289 )	( 87,505 )
Total operating expenses	( 227,391 )	( 1,009,728 )	( 145,811 )	( 697,635 )
Operating profit	<u>306,933</u>	<u>1,362,936</u>	<u>162,812</u>	<u>778,974</u>
Non-operating income				
Interest income	515	2,288	443	2,121
Exchange gain, net	8,104	35,986	-	-
Government subsidy income	5,338	23,703	6,278	30,035
Miscellaneous income	<u>3,112</u>	<u>13,817</u>	<u>2,754</u>	<u>13,179</u>
Total non-operating income	<u>17,069</u>	<u>75,794</u>	<u>9,475</u>	<u>45,335</u>
Non-operating expenses				
Interest expenses	( 10,641 )	( 47,249 )	( 12,185 )	( 58,302 )
Loss on disposal of fixed asset (Note 2)	( 1,316 )	( 5,842 )	( 1,252 )	( 5,989 )
Exchange loss, net	-	-	( 3,031 )	( 14,501 )
Miscellaneous expenses	( 169 )	( 752 )	( 408 )	( 1,954 )
Total non-operating expenses	( 12,126 )	( 53,843 )	( 16,876 )	( 80,746 )
Income before tax	311,876	1,384,887	155,411	743,563
Income tax expense	( 75,428 )	( 334,940 )	( 40,411 )	( 193,348 )
Consolidated net income	<u>\$ 236,448</u>	<u>\$ 1,049,947</u>	<u>\$ 115,000</u>	<u>\$ 550,215</u>
Attributed to:				
Parent company's shareholders	\$ 234,167	\$ 1,039,818	\$ 96,024	\$ 459,426
Minority interest	<u>2,281</u>	<u>10,129</u>	<u>18,976</u>	<u>90,789</u>
	<u>\$ 236,448</u>	<u>\$ 1,049,947</u>	<u>\$ 115,000</u>	<u>\$ 550,215</u>

Note: The 2009 pro forma consolidated financial statement is provided for inter-period comparison.

## 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	<p>To transfer shares to employees at less than the average actual repurchase price, a company must have obtained the consent of at least two-thirds of the voting rights present at the most recent shareholders meeting attended by shareholders representing a majority of total issued shares, and must have listed the following matters in the notice of reasons for that shareholders meeting; it may not raise the matter by means of an extraordinary motion:</p> <ol style="list-style-type: none"> <li>(1) The exercise price, the valuation percentage, the bases of calculations, and the reasonableness thereof.</li> <li>(2) The number of shares to be transferred, the purpose, and the reasonableness thereof.</li> <li>(3) Qualification requirements for employees subscribing to shares, and the number of shares they are allowed to subscribe for.</li> <li>(4) Factors affecting shareholders' equity: <ol style="list-style-type: none"> <li>(a) The expensable amount, and dilution of the company's earnings per share.</li> <li>(b) Explain what financial burden will be imposed on the company by transferring shares to employees at less than the average actual repurchase price.</li> </ol> </li> </ol> <p>In previous instances where share, as provided for in the preceding paragraph, transfers to employees have been approved by shareholders meetings and the shares have been transferred, the aggregate number of shares thus transferred may not exceed 5 percent of the total issued shares of the company, and the aggregate number of shares subscribed by any single employee may not exceed 0.5 percent of total issued shares.</p>	Article 10-1 of Exchange-Listed and OTC-Listed Companies	Cayman Islands Companies Act does not have provision on treasury stock. If the Company buys back its shares, the shares will be forthwith cancelled and will not be transferred to employees. Thus the shareholder protection clause on the left is not incorporated into the Company's Articles of Association.
2	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	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

	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
	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.		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 requisitionists may themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules."
3	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 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."
4	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	1. Article 185 of Company Act. 2. Article 209 of	1. Section 1.1 of the Company's Articles of Association ( 1 ) Provisions in the Company's Articles of Association: According to Section 1.1 of the Company's Articles of Association,

	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>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>	<p>Company Act.</p> <ol style="list-style-type: none"> <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 43-6 of Securities and Exchange Act.</li> </ol>	<p>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> <p>(2) Reasons for differences</p> <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 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</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
			<p>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:</p> <p>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:</p> <p>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 circumstances.</p>
5	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	Article 200 of Company Act	<p>(1) Provisions in the Company's Articles of Association:</p> <p>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</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
	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.		<p>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>
6	<ol style="list-style-type: none"> <li>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.</li> <li>The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election.</li> <li>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.</li> <li>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</li> </ol>	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 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.

	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>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>5. 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>6. 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>7. 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>8. Supervisor may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p>		
7	<p>Shareholder(s) who has/have been continuously holding 3% or more of the total number of the outstanding shares of the company over one year may request in writing the supervisors of the company to institute, for the company, an action against a director of the company and request that Taiwan Taipei District Court be the court of jurisdiction for the first instance.</p> <p>In case the supervisors fails to institute an action within 30 days after having received the request made by the shareholders, shareholders may institute the action for the company and request that Taiwan Taipei District Court be the court of jurisdiction for the first instance.</p>	Articles 200, 214, and 27 of Company Act.	<p>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."</p> <p>The Company has set up an audit committee composed of all independent directors of the Company and hence is not required to elect supervisors.</p> <p>Hence the shareholder protection measure on the left is not incorporated into the Company's Articles of Association.</p>

**AirTAC International Group**

**AirTAC International Group**

**Chairman: Wang Shih-Chung**