



AIRTAC INTERNATIONAL GROUP

Annual Report 2012

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

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

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

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Website: <http://www.deloitte.com.tw>**Overseas Securities Listing Exchange and Information: None****Company Website: <http://www.airtac.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	CEO of AirTAC International Group
Director	Wang Hong-Bing	China	Former Vice President of Jianliang (Shanghai) Trading
Independent Director	Chang Bao-Guang	Taiwan	Professor of Accounting, Tamkang University
Independent Director	Chiang Chih-Chun	Taiwan	Chief Attorney of Latham & Watkins LLP
Independent Director	Leong Kam-Son	Malaysia	Former Operation Partner of JW Childs, Former 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	ivan.tsao@airtac.com

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1. Letter to Shareholders

Dear Shareholders,

1.1 Foreword

AirTAC encountered a weak demand of the Chinese market due to the macro-control by the Chinese government on the capital of the market in 2011, and the issue of market demand in 2012 has transferred to the demand of end market from capital issue. Because of the depressed European and American markets as well as the weak demand of the Chinese market, the market demand for pneumatic products in 2012 almost retarded. Even though AirTAC obtained a small increase in revenue in 2012, the Company surpassed other competitors and achieved record high consolidated revenue in 2012.

1.2 2012 Business Overview:

(1) Business performance

In 2012, AirTAC reported consolidated revenue of TWD 5,667,987,000, an increase of TWD 29,683,000 or 1% as compared to the revenue of TWD 5,638,304,000 in 2011. Our consolidated net income after tax amounted to TWD 1,117,791,000, which was decreased by TWD 258,977,000 or 18.81% as compared to net income of TWD 1,376,768,000 in 2011. The earnings per share in 2012 were TWD 7.36, and the net worth per share was TWD 37.87 with stockholders' equity of TWD 5,681,098,000. To sum up, the Group's 2012 consolidated revenue has hit record-high levels since the Company's inception.

(2) Financial and profit analysis

In 2012, our consolidated non-operating income amounted to TWD 73,703,000, an increase of TWD 5,555,000 or 8.15% as compared to TWD 68,148,000 in 2011. The increase is attributed primarily to the Government grant income being raised by 12,409,000. Our 2012 consolidated non-operating expense was TWD 51,656,000, an increase of TWD 15,605,000 or 43.29% as compared to TWD 36,051,000 in 2011, with a main cause of the interest cost being increased by 16,621,000 as compared to that of 2011. In addition, our 2012 return on assets was 12.28% and our return on stockholders' equity in the year was 19.97%.

(3) R&D

In R&D, AirTAC continues to shore up the high market shares of our mid-end products used in traditional industries and has been endeavoring in the development of mid- to high-end products in recent years. We plan to roll out about five to ten series of new products every year in the next three years to double the breadth of our product lines. Aside from new product R&D, we also spend heavily on production automation and process improvement to enhance our competitiveness. Our 2012 R&D expenditure amounted to TWD 178,520,000, accounting for 3.15% of the year's consolidated revenue, and increasing by TWD 64,326,000 or 56.33% as compared to TWD 114,194,000 in 2011. In the continuing efforts to strengthen our R&D capability, we plan to increase our R&D spending to 4% of the year's consolidated net operating income in the future.

1.3 Summary of 2013 Business Plan:

For 2013, we will budget TWD 2.3 billion for capital expenditure. Besides capacity expansion, we plan to establish the second R&D Center in Taiwan as well as the acquisition of lands and establishment of a plant in Tainan in order to develop precision pneumatic components and other products. We also plan to increase 6~10 sales offices in China. As for the expansion of overseas operations, we will accomplish the establishment of the Japanese sales company in the 2nd quarter of 2013 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 2013 sales will grow at least 20% from 2012.

Industrial automation systems advance rapidly. With the goals of seeking stable, sustainable operation and maximum benefits for shareholders, we will continue to develop new clients, develop new products, upgrade production technologies and improve production processes to shore up our overall competitiveness. We also aim for higher profits through improved operating efficiency coupled with effective cost control. We believe that with the full support of our 3,300 strong colleagues around the world and shareholders, AirTAC will gain record achievements in the exploration and development of industrial automation in the future.

Lastly wish you all health and success!

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

2. Company Overview

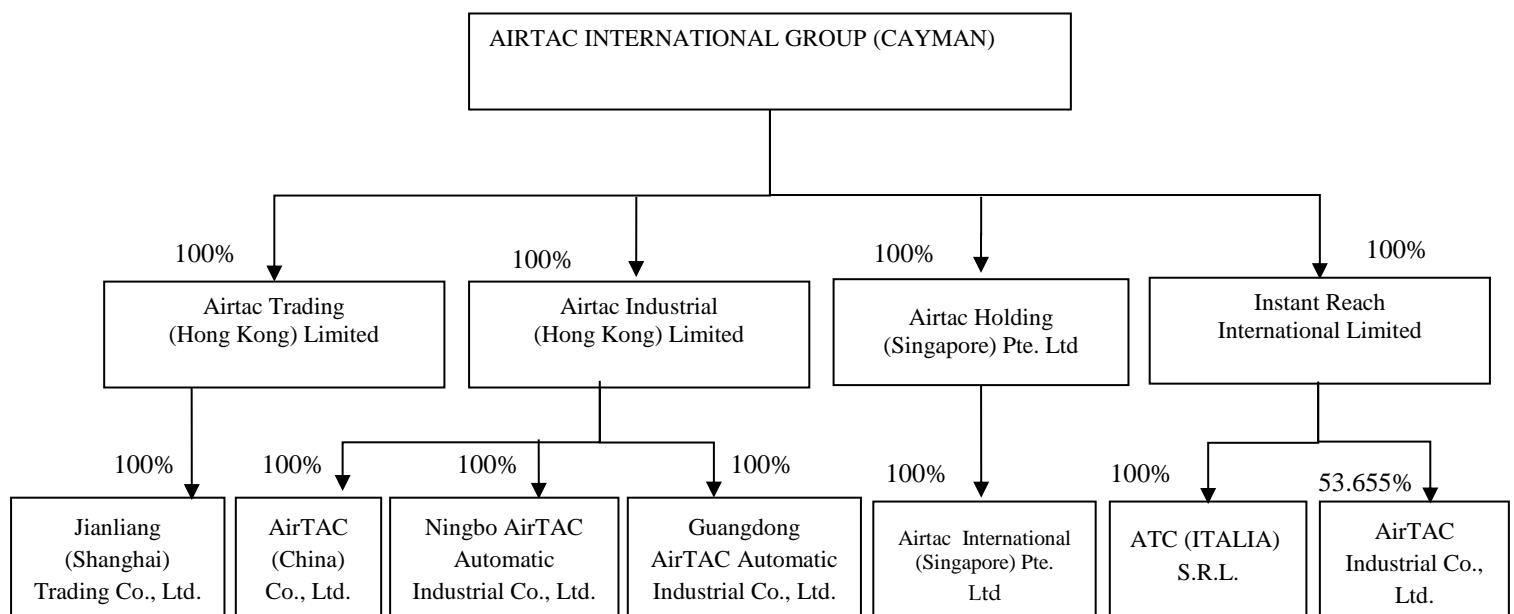
2.1 Company Introduction

2.1.1 Date of establishment and introduction of the Group

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

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

2.1.2 Organizational structure



2.2 Milestones

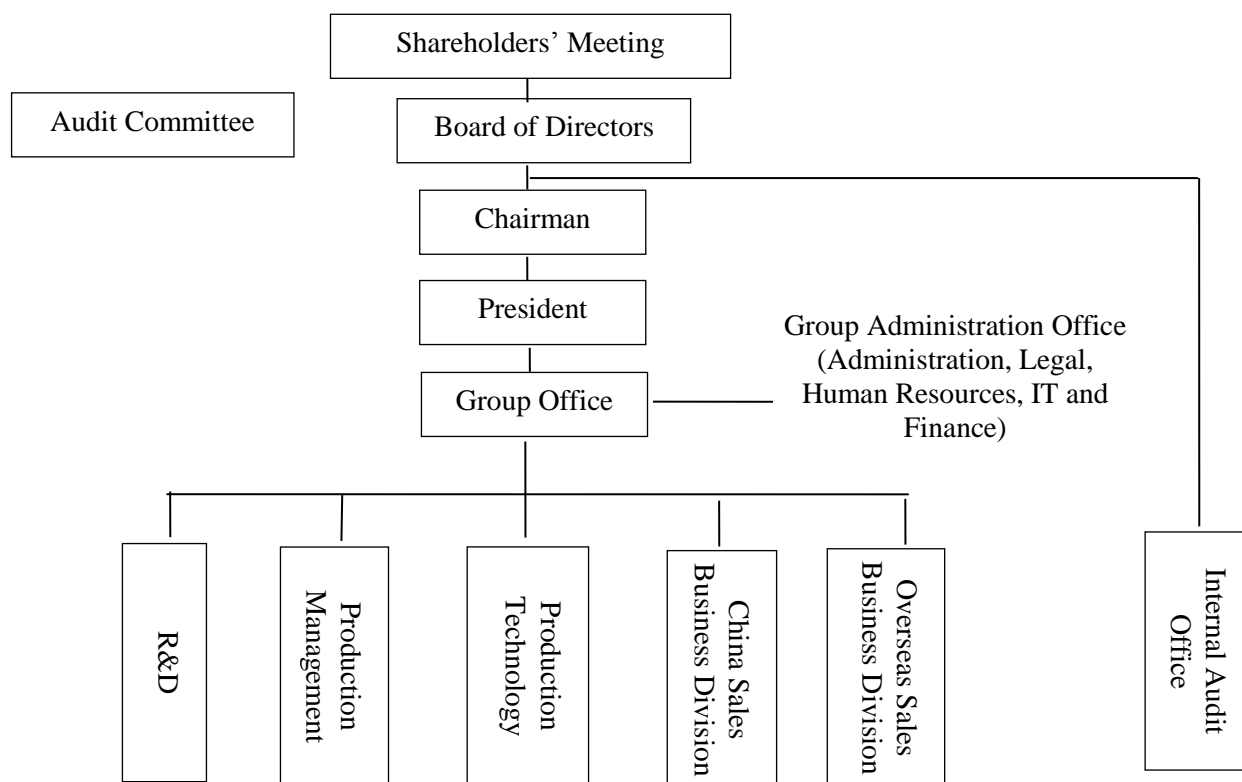
<u>Date</u>	<u>Milestone</u>
1989	AirTAC established in Taipei, Taiwan to manufacture mainly valve products.
1990	Launched brand name products AirTAC.
1992	Introduced air preparation units and pneumatic cylinders.
1995/07	Established an operation in Guangzhou, AirTAC's first establishment in China.
1998/07	Established Guangzhou Jianliang Automatic Industrial Co. in Guangzhou, AirTAC's first plant in China.
2001/08	Established Ningbo AirTAC Automatic Industrial Co. in Jejiang Ningbo Fenghua Economic Development Zone.
2003/07	The phase 1 plant construction of Ningbo AirTAC Automatic Industrial Co. was completed and in use of mass production.
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	Established AirTAC International Group in Cayman Islands as the Group's holding company and to apply for IPO.
2011/8	Established Southeast Asian Sales Headquarters in Singapore.
2012/1	Established AirTAC (China) Co., Ltd. which has 57 sales branches in Mainland China currently.
2012/5	1. Guangdong AirTAC Automatic Industrial Co., Ltd. relocated to the new plants in Foshan.
2012/7	2. Expanded and established the R&D Center in Ningbo.

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

March 24, 2013 Unit: Shares, %

Title	Name	Date elected	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		Shares held in the name of others		Education/work experience	Other positions	Other officer, director or supervisor who is the spouse or a relative within the second degree		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	Wang Shih-Chung	2010/04/17	3 years	2009/12/24	—	—	—	—	4,155,357	2.77	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	*Director of AirTAC Industrial Co. Ltd.	—	—	—
Director	Wang Hai-Ming	2010/04/17	3 years	2009/12/24	—	—	—	—	707,687	0.47	9,995,850	6.66	* Vice Chairman of Ningbo Airtac	Note 3	—	—	—
Director	Lin Chiang-Ti	2010/04/17	3 years	2010/04/17	439,151	0.68	1,052,737	0.70	—	—	—	—	*CEO of AirTAC International Group	Note 4	—	—	—
Director	Wang Hong-Bing	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	*Former Vice President of Jianliang (Shanghai) Trading	*Director of Jianliang (Shanghai) Trading Co., Ltd.	—	—	—
Independent director	Chang Bao-Guang	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	*Professor of Accounting, Tamkang University	*Supervisor of Taiwan Accounting Association *Finance Commissioner of Chinese Association for Industrial Technology Advancement	—	—	—
Independent director	Chiang Chih-Chun	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	*Chief Attorney of Latham & Watkins LLP	* Financial and Economic Law Consultant of the Straits Exchange Foundation for the Taiwanese Businessmen in the Mainland *Chairman of TICRF	—	—	—
Independent director	Leong Kam-Son	2010/04/17	3 years	2010/04/17	—	—	—	—	—	—	—	—	*Former Operation Partner of J W Childs *Former President of Asia/Pacific Operations of York International Corporation *Chairman of Nanjing BG	* Independent Director of Fluidra S.A.	—	—	—

Title	Name	Date elected	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and minor children		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
													Conditioning Equipment Co., Ltd. *Partner and Director of HLL Partners				

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

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

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

Note 4: Director of Ningbo AirTAC Automatic Industrial Co., Ltd., Director / GM of AirTAC (China) Co., Ltd., Director / GM of Jianliang (Shanghai) Trading Co., Ltd., Chairman of Guangdong AirTAC Automatic Industrial Co., Ltd. and Director of ATC (ITALIA) S.R.L.

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 therefore	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	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chiang Chih-Chun	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Leong Kam-Son			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

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

March 24, 2013 Unit: Shares, %

Title	Name	Date appointed	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			Title	Name	Relationship
President	Lan Shun-Cheng	2009.12.24	3,093,613	2.06	—	—	8,665,000	5.78	▪ President of AirTAC International Group	Note 1	—	—	—
President of AirTAC China, Jianliang (Shanghai), and ATC	Lin Chiang-Ti	2012.4.27	1,052,737	0.70	—	—	—	—	▪ CEO of AirTAC International Group	Notes 2	—	—	—
President of Guangdong AirTAC	Lin Yong-Feng	2009.11.17	2,909,581	1.94	36,000	0.02	—	—	▪ Production VP of Ningbo AirTAC	Note 3	—	—	—
President of Taiwan AirTAC	Yang Kuo-Yi	2009.5.1	24,000	0.02	—	—	—	—	▪ Administrative VP of Ningbo AirTAC ▪ VP of Kunshan Baiheng Photoelectric	Note 4	—	—	—
President of Ningbo AirTAC	Li Hui-Wen	2011.1.1	—	—	—	—	—	—	▪ Production manager of Xiamen Amekai Co. ▪ Plant manager of Xiamen Lee Sheng Electronics	—	—	—	—
Vice President of Ningbo AirTAC	Wang Yu-Jen	2011.9.13	—	—	—	—	—	—	▪ Operation Management Assistant Manager of Foxconn	—	—	—	—
Vice President of R&D Center	Huang Li-Pei	2011.1.01	30,000	0.02	—	—	—	—	▪ Group Assistant Manager of Foxconn	—	—	—	—
Vice President of Systems Engineering Dept. of AirTAC China	Zhu Yan	2011.3.3	—	—	—	—	—	—	▪ Director of Sales Headquarters, Eastern and Southwestern Region of SMC	—	—	—	—
Administrative VP of Ningbo AirTAC	Gu Zhong-Ming	2011.1.1	—	—	—	—	—	—	▪ Sales VP of Ningbo AirTAC	—	—	—	—
Technology VP of Jianliang (Shanghai)	Xu Guan-Hua	2011.1.1	—	—	—	—	—	—	▪ Market Director of Jianliang (Shanghai)	—	—	—	—
Sales VP of Jianliang (Shanghai)	Yuan Shi-Da	2011.1.1	—	—	—	—	—	—	▪ Sales Director of Jianliang (Shanghai)	—	—	—	—
Vice President of Jianliang (Shanghai)	Wang Hong-Bing	2011.1.1	—	—	—	—	—	—	▪ VP of Jianliang (Shanghai)	Note 5	—	—	—
Chief Financial Officer	Tsao Yung-Hsiang,	2010.5.27	45,000	0.03	—	—	—	—	▪ Assistant Finance VP of Paragon Technologies ▪ Chairman's special assistant of Niko-SEM ▪ Auditing assistant manager of Deloitte Taiwan	Chairman of ATC	—	—	—
Chief Audit officer	Lin Chian-Ming	2009.12.24	36,000	0.02	—	—	—	—	▪ 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. Ltd.

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

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

Note 4: Director of AirTAC Industrial Co., Ltd.

Note 5: Director of AirTAC International Group, Director of Jianliang (Shanghai) Trading Co., Ltd.

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	AirTAC International	All companies in consolidated statements	
														Cash bonus	Stock bonus	Cash bonus	Stock bonus					
Chairman	Wang Shih-Chung	—	10,590	—	—	—	—	306	—	0.97%	12,674	—	—	—	—	233	—	—	—	2.13 %	-	
Director	Gordon Shaw																					
Director	Lan Shun-Cheng																					
Director	Wang Hai-Ming																					
Director	Lin Chiang-Ti																					
Director	Wang Hong-Bing																					
Independen-t 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 April 17, 2010.

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.

Note3: Lin Chiang-Ti is the Director of Ningbo AirTAC Automatic Industrial Co. and ATC (ITALIA) S.R.L, Director/GM of AirTAC (China) Co., Ltd. and Jianliang (Shanghai) Trading Co., Ltd., Chairman of Guangdong AirTAC Automatic Industrial Co. Ltd.

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., Ltd.

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, Leong Kam-Son	—	Gordon Shaw, Lan Shun-Cheng, Wang Hong-Bing, Chang Bao-Guang, Chiang Chih-Chun, Leong Kam-Son
\$2,000,000 ~ <\$5,000,000	—	—	—	Wang Shih-Chung, Wang Hai-Ming
\$5,000,000 ~ <\$10,000,000	—	—	—	Lin Chiang-Ti
\$10,000,000 ~ <\$15,000,000	—	—	—	—
\$15,000,000 ~ <\$30,000,000	—	—	—	—
\$30,000,000 ~ <\$50,000,000	—	—	—	—
\$50,000,000 ~ <\$100,000,000	—	—	—	—
100,000,000 or higher	—	—	—	—
Total	—	9 persons	—	9 persons

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

(3) Remuneration of president and vice presidents

In TWD 1,000; 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	—	40,537	—	—	—	3,253	—	—	13,747	—	—	5.15%	—	—	—
President of Jianliang (Shanghai)	Lin Chiang-Ti															
President of Guangdong AirTAC	Lin Yong-Feng															
President of AirTAC Taiwan	Yang Kuo-Yi															
President of Ningbo AirTAC	Li Hui-Wen															
VP of Ningbo AirTAC	Wang Yu-Jen															
VP of R&D Center	Huang Li-Pei															
VP of Systems Engineering Dept. of AirTAC China	Zhu Yan															
Administrative VP of Ningbo AirTAC	Gu Zhong-Ming															
Technology VP of Jianliang (Shanghai)	Xu Guan-Hua															
Sales VP of Jianliang (Shanghai)	Yuan Shi-Da															
VP of Jianliang (Shanghai)	Wang Hong-Bing															

Remuneration Table

Remuneration to respective president or vice president	Name of president or vice president	
	AirTAC International	All companies in consolidated statements
< \$2,000,000	—	Lan Shun-Cheng, Yuan Shi-Da, Wang Hong-Bing
\$2,000,000 ~ <\$5,000,000	—	Yang Kuo-Yi, Huang Li-Pei
\$5,000,000 ~ <\$10,000,000		Lin Chiang-Ti, Lin Yong-Feng, Li Huai-Wen, Wang Yu-Jen, Zhu Yan, Gu Zhong-Ming, Xu Guan-Hua
\$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	— persons	12 persons

(4) Names of managers receiving employee bonus

March 24, 2013

	Title	Name	Stock bonus	Cash bonus	Total	Ratio of total bonus to after-tax income (%)
Manager	AirTAC President	Lan Shun-Cheng	—	17,195	17,195	1.54%
	President of Jianliang (Shanghai)	Lin Chiang-Ti				
	President of Guangdong AirTAC	Lin Yong-Feng				
	President of Taiwan AirTAC	Yang Kuo-Yi				
	President of Ningbo AirTAC	Li Hui-Wen				
	Administrative VP of Ningbo AirTAC	Wang Yu-Jen				
	VP of R&D Center of Ningbo AirTAC	Huang Li-Pei				
	VP of Jianliang (Shanghai)	Zhu Yan				
	Administrative VP of Ningbo AirTAC	Gu Zhong-Ming				
	Technology VP of Jianliang (Shanghai)	Xu Guan-Hua				
	Sales VP of Jianliang (Shanghai)	Yuan Shi-Da				
	President of Jianliang (Shanghai)	Wang Hong-Bing				
	Chief Financial Officer	Tsao Yung-Hsiang,				
	Chief Auditing officer	Lin Chian-Ming				

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

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

In TWD 1,000

Item	2011		2012	
	Amount	%	Amount	%
Director	28,514	2.07%	23,805	2.13%
President and vice presidents	79,618	5.78%	57,537	5.15%
Consolidated profit	1,376,768	100.00%	1,117,791	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 6 meetings in 2012. 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	6	0	100%	—
Director	Gordon Shaw	6	0	100%	—
Director	Lan Shun-Cheng	6	0	100%	—
Director	Wang Hai-Ming	6	0	100%	—
Director	Lin Chiang-Ti	6	0	100%	—
Director	Wang Hong-Bing	4	2	66.67%	—
Independent director	Chang Bao-Guang	6	0	100%	—
Independent director	Chiang Chih-Chun	6	0	100%	—
Independent director	Leong Kam-Son	6	0	100%	—

Title	Name	Number of attendance in person	Number of attendance by proxy	Actual attendance rate (%)	Remark
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. During the discussion on proposal No. Four "appointment of GM of AirTAC (China) Co., Ltd." at the second period 16th board of directors' meeting, Director Lin Chiang-Ti recused himself from participation in voting or voting as a proxy of other Directors. During the extempore motion "appointment of legal representative of Guangdong AirTAC Automatic Industrial Co., Ltd. and AirTAC Industrial Co., Ltd." at the second period 17th board of directors' meeting, Director Lan Shun-Cheng and Director Lin Chiang-Ti recused themselves from participation in voting or voting as a proxy of other directors. During the extempore motion No. Three "appointment of CEO of AirTAC International Group", Director Lin Chiang-Ti recused himself from participation in voting or voting as a proxy of other directors. 3. Goals for enhancing the functions of the Board of Directors (e.g. setup of an audit committee, enhancing information transparency, etc.) and assessment of actions taken: setup of a remuneration committee.					

3.3.2 Operation of Audit Committee

The Audit Committee held 6 meetings in 2012. 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	6	0	100%	—
Independent director	Chiang Chih-Chun	6	0	100%	—
Independent director	Leong Kam-Son	6	0	100%	—
Notes: 1. In case there were matters under Article 14-5 of the Securities and Exchange Act, or resolutions passed by more than two-thirds of all directors but not by the audit committee, describe the date and term of the board of directors' meeting, motions, resolution adopted by the audit committee, and actions taken by the Company based on the opinions of the audit committee: None. 2. In case an independent director recused himself from participating in a matter before the board because of a conflict of interest, describe the name of independent director, motion, reason for recusal and participation in voting: During the extempore motion No. One "remuneration raise for independent directors", independent director Chang Bao-Guang, Chiang Chih-Chun, and Leong Kam-Son recused themselves from participation in voting or voting as a proxy of other directors. 3. Communication between independent directors and chief audit officer and CPA (e.g. communication on Company's finance, business, methods of communication and results): The Company's chief audit officer sits in all audit committee's meetings to communicate with committee members; CPA would sit in the meetings of audit committee if necessary.					

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

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

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

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

Members of the Remuneration Committee

Title (Note 1)	Requirements Name	With Minimal Five-Year Working Experience and Following Qualifications			Condition of Independence (Note 2)										Number of other public companies in which the director also serves as an independent director
		Lecturer or other positions of Business, Legal, Finance, Accounting, or other required relating majors in college	With authorized accreditations of specialized careers and technical personnel like judge, procurator, lawyer, accountant	Working experience on business, legal, finance, accounting	1	2	3	4	5	6	7	8	9	10	
Independent director	Chang Bao-Guang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent director	Chiang Chih-Chun	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent director	Leong Kam-Son			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note 1: Please specify the title with Director, Independent director or Others.

Note 2: 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 any of the situations set forth in Article 30 of the Company Act of the R.O.C.

Note 3: If the member of the committee is a Director, please explain the compliance with the Item No. 5, Article 6 of the "Regulation governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company whose Stock is listed on the Stock Exchange or Traded Over the Counter"

Operation of the Remuneration Committee

- (1) The remuneration committee of the Company consists of 3 members.
- (2) Term of the committee members: November 1, 2011~April 16, 2013. The remuneration committee held 5 meetings in the most recent years. The attendance records of members are as follows:

Title	Name	Number of attendance in person	Number of attendance by proxy	Actual attendance rate (%)	Remark
Convener	Chang Bao-Guang	5	0	100%	—
Committee Member	Chiang Chih-Chun	5	0	100%	—
Committee Member	Leong Kam-Son	5	0	100%	—
Notes:					
1. In case there were matters passed not by or amended by the board of directors, describe the date, term, motions and resolution of the board of directors' meeting, and actions taken by the Company based on the opinions of the remuneration committee (In case the remuneration passed by the board of directors' meeting exceeds the suggestion of the remuneration committee, describe the difference and reason): None.					
2. In case any member of the remuneration committee expressed dissenting or reserve opinions on any resolution adopted at the meeting of remuneration committee with a record or written statement, describe the date, term and motions of the meeting of remuneration committee, and actions taken by the Company on the opinions of the remuneration 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 Company provides personnel performing</p>	<p>In compliance with the CSR Best Practice Principles.</p> <p>In compliance with the CSR Best Practice Principles</p>

Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
(3) Establishment of a dedicated unit or assign dedicated personnel for environment management.	energy statistics work with professional training to hone their skills and knowledge and make sure all energy statistics generated are true, clear and accurate.	In compliance with the CSR Best Practice Principles.
(4) Watching the effect of climate change on operating activities and strategies on energy conservation, carbon reduction, and greenhouse gas emission reduction	(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.	
	(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.	In compliance with the CSR Best Practice Principles.
3. Upholding public interest	(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.	In compliance with the CSR Best Practice Principles.
(1) Compliance with relevant labor laws and regulations, protecting the legal rights and interests of employees, and establishment of proper management methods and procedures	(2) The Company believes that only mentally and physically healthy employees could produce efficient and high-quality performance in work. Thus the Company endeavors to provide employees with a safe and healthy work environment. The Company has an employee lounge at worksite and arranges annual employee travel activities. In the aspect of work safety, the Company carries out safety management in accordance with the machinery production safety standards and draws up a comprehensive safety management system to identify hazardous factors at work and undertake troubleshooting. Through continuous education, training and promotion, the Company imparts employees with emergency response capability and raises their awareness to work safety. The Company also establishes prevention and tracking system for work injury to build a safe work environment in the hope to reduce the incidence of work-	In compliance with the CSR Best Practice Principles.
(2) Providing a safe and healthy work environment for employees, and regularly educating employees on safety and health		

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>related accidents, thereby alleviating any adverse impact on Company assets and employee safety. Recreation Areas are equipped in the Company. Leisure activities are held by specially-assigned person and annual travels are arranged for employees.</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, St. Teresa Children Center, Private Xiang Yuan of Taiwan Province, Legal person of financial group commemorates the asylums, Tzu Chi Foundation, Private Chung Yi Protectory of Taipei City, New Life Foundation, the NWL Foundation for the Hearing Impaired, R.O.C, Taiwan Epidermolysis Bullosa Association, Huimin Asylum for Blind Children, and Harmony Home Association, Taiwan 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 jointly held the activity “Foresee</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>Love, Meet Happiness” with Xinpei Municipal Government on Mid-Autumn Day. A total of 350 families, more than 1,000 people were invited to attend this activity for underprivileged families.</p> <p>c. AirTAC continuously donated money to 40 underprivileged families in Tucheng, Sanxia, Yingge, Shulin, and Banqiao area.</p> <p>d. AirTAC continued the village construction project in Xide, Liangshan, Sichuan Province, , and reconstruction projects after severe floods on August 31, 2012 in Fenghua, Huzhou, Lishui, Zhejiang and participated in long-term aid activities toward 250 impoverished families in Gaoyao and Foshan, Guangdong province.</p> <p>B. Education projects</p> <p>AirTAC cares about the education in Taiwan and has developed the “Blue School Assistance Project”</p> <p>a. AirTAC made regular donations to “Ju Yuan Elementary” and “Taiwan Epidermolysis Bullosa Association” to help improve the school’s software and hardware facilities and develop all kinds of educational programs;</p> <p>b. AirTAC set up a “Financial Aid Foundation” in Guangdong China to provide long-term assistance to single, impoverished mothers, women who lost their jobs, poor students, and severely ill children to pass the hard time;</p> <p>c. AirTAC set up a “Yu Mei Scholarship” program to help poor students at Guangdong Zhongshan University and students in “Pearl Class” of Zhejiang Xinhua Compassion Senior High School, Chongqing Industry Polytechnic College, Zhengzhou Railway Vocational & Technical College, Jimei University Chengyi College, Lanzhou University of Technology, Shanghai University, Shandong University, Xi’an University of Technology, Hefei University of Technology, Nanjing University of Technology, who have been admitted to university to help them finish their college education;</p> <p>d. AirTAC set up a “AirTAC Scholarship” program to help poor students at Chongqing Industry Polytechnic College, Zhengzhou Railway Vocational & Technical College, Lanzhou University of Technology, Shanghai University, Shandong University, Xi’an University of Technology, Hefei University of Technology, Nanjing University of</p>	

Item	Implementation Status	Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	<p>Technology, who have been admitted to university to help them finish their college education;</p> <p>e. AirTAC provides regular financial aid to poor students in a class in Nanchong Yingxi Senior Vocational Middle School and Shandong Tancheng Vocational Education Center, China to help them learn a skill that will enable them to make a living;</p> <p>C. Emergency relief</p> <p>a. AirTAC donated money and goods to underprivileged people and provide assists on medical aids, residence arrangement, living subsidies for general emergency, registration allowance, and house repairing.</p> <p>b. AirTAC donated money and goods to those who suffering from serious disease like leukemia and cancer and provide them with assists on medical aids, house repairing.</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>
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.		
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.		
7. The Company’s product or corporate social responsibility report that has passed the examination of a certification institution: None.		

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 5, 2013

The Company states the following with regard to its internal control systems for 2012 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, 2012 (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 5, 2013, 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	2012/3/13	<ol style="list-style-type: none"> 1. Acknowledge the consolidated financial statements of the company and subsidiaries for the year of 2011 2. Approval of the time and place of the company's annual general meeting of the shareholders 2012, deadline of transferring and motion of the shareholders' meeting 3. Approval of the distribution of dividend for the year of 2011 4. Approval of the amendment to Company's Articles of Association 5. Passed the audit plan for the year of 2012 (Renewed Version) 6. Passed the amendment of relative operation method of the Company's management policy 7. Passed the amendment of the internal controls system 8. Passed the statement of the internal controls system 9. Passed the contract extension of purchasing directors' liability insurance
Board of Directors' Meeting	2012/4/27	<ol style="list-style-type: none"> 1. Acknowledgement of the consolidated financial statement of the Company and subsidiaries for the 1st quarter of 2012 2. Passed the amendment of the Company's Articles of Association
Shareholders' Meeting	2012/6/14	<ol style="list-style-type: none"> 1. Acknowledge the operating report and consolidated financial statements of the company and subsidiaries for the year 2011 2. Passed the distribution of dividend for the year of 2011 3. Passed the amendments of the Procedure of Acquisition or Disposal of Fixed Assets and Manual of Shareholders' Meeting 4. Passed the amendment of the Company's Articles of Association
Board of Directors' Meeting	2012/6/14	<ol style="list-style-type: none"> 1. Passed the interest base date for distribution of dividends for the year 2011 2. Appointment of legal representatives of Guangdong AirTAC Automatic Industrial Co., Ltd., AirTAC Industrial Co., Ltd. and ATC (Italia) S.R.L. respectively
Board of Directors' Meeting	2012/8/22	<ol style="list-style-type: none"> 1. Acknowledge the consolidated financial statement of the company and subsidiaries for the first half of 2012 2. Approval of capital increase of AirTAC (China) Co., Ltd.
Board of Directors' Meeting	2012/10/30	<ol style="list-style-type: none"> 1. Acknowledge the consolidated financial statements of the Company and subsidiaries for the first three quarters of 2012 2. Approval of capital increase of AirTAC (China) Co., Ltd. 3. Passed the audit plan for the year 2013 4. Passed the appointment of GM of AirTAC International (Singapore) Pte., Ltd. and ATC (Italia) S.r.l.

Meeting	Date	Important resolutions
Board of Directors' Meeting	2012/12/20	Passed the establishment of subsidiary and branch office of the Company
Board of Directors' Meeting	2013/3/5	1.Acknowledge the consolidated financial statements of the company and subsidiaries for the year of 2012 2.Approval of the time and place of the Company's annual general meeting of the shareholders 2013, deadline of transferring and motion of the shareholders' meeting 3. Approval of the distribution of dividend for the year of 2012 4.Approval of the amendment to Company's Articles of Association 5.Passed the land purchase of the Company's subsidiary 6. Passed the amendment to operation methods of the Company's managing policies 7.Passed the statement on internal control systems 8.Passed the cash capital increase by issuing common shares 9.Passed the election of the Directors of the third term of the Company 10.Passed the release from restrictions relating to the participation in the competing industries by the Directors of the third term
Board of Directors' Meeting	2013/4/2	1. Passed the transfer of earnings to share capital and issuing new shares 2. The qualification examination of nominated Independent Directors

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

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

3.4 Information on CPA Professional Fees

3.4.1 CPA fees information

Name of accounting firm	Name of CPA		Audit period	Remark
Deloitte & Touche Taiwan	HSIEN MING CHUNG	Jacky M. Chen	2012.1.1-2012.12.31	

In 1,000 TWD

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

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

In 1,000 TWD

Name of accounting firm	Name of CPA	Audit fees	Non-audit fees					Audit period	Remark
			System design	Business registration	Human resources	Others	Subtotal		
Deloitte Touche	& HSIEN MING-CHUNG Jacky M. Chen	2,800						2012	Note

Note: The aforesaid CPA fees do not include fees of RMB 2,050,000 (equivalent to TWD 9,553,000, according to the exchange rate of 4.66 in the end of 2012) paid to Deloitte Touche Tohmatsu in China in 2012.

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: N/A

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	2012		Up to March 24, 2013	
		Increase (decrease) of shares held	Increase (decrease) of shares pledged	Increase (decrease) of shares held	Increase (decrease) of shares pledged
Chairman	Wang Shih-Chung	—	—	—	—
Director	Gordon Shaw	—	—	—	—
Director & President	Lan Shun-Cheng	—	—	—	—
Director	Wang Hai-Ming	—	—	—	—
Director & President of Jianliang (Shanghai)	Lin Chiang-Ti	—	(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	—	—	—	—

Title	Name	2012		Up to March 24, 2013	
		Increase (decrease) of shares held	Increase (decrease) of shares pledged	Increase (decrease) of shares held	Increase (decrease) of shares pledged
President of Guangdong AirTAC	Lin Yong-Feng	—	—	—	—
President of Taiwan AirTAC	Yang Kuo-Yi	(31,000)	—	24,000	—
President of Ningbo AirTAC	Li Hui-Wen	—	—	—	—
Chief Financial Officer	Tsao Yung-Hsiang,	15,000	—	—	—
Chief Audit Officer	Lin Chian-Ming	—	—	—	—
10% shareholder	Ding Kan Investment Ltd.	—	—	—	—

(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; 2013.03.24

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		Remark
	Shares	%	Share s	%	Shares	%	Title (name)	Relationship	
Ding Kan Investment Ltd.	23,773,000	15.85%	—	—	—	—	Proud Unit Company Ltd. /Lin Shu-Mei	Similar shareholding structure /Spouse of a Director	Note
YHZ Ltd.	9,995,850	6.66%	—	—	—	—	—	—	Note
Core Value Fund Ltd.	9,574,000	6.38%	—	—	—	—	—	—	Investment Fund
Express Brilliant Ltd.	8,665,000	5.78%	—	—	—	—	Lan Shun-Cheng	Director	Note
Investment Account of Central Bank of Saudi Arabia Partners under the trust of JPM	7,738,000	5.16%	—	—	—	—	—	—	—
Chen Rui-Long	5,000,065	3.33%	—	—	—	—	—	—	—
Lin Shu-Mei	4,155,357	2.77%	—	—	—	—	Ding Kan Investment Ltd./ Proud Unit Co Ltd.	Spouse of a Director	—
Fubon Life Insurance Co., Ltd.	4,114,000	2.74%	—	—	—	—	—	—	—
Proud Unit Company Ltd.	3,698,426	2.47%	—	—	—	—	Ding Kan Investment Ltd. /Lin Shu-Mei	Similar shareholding structure /Spouse of a Director	Note
Lan Shun-Cheng	3,093,613	2.06%	—	—	8,665,000	5.78%	Express Brilliant Ltd.	Director of the Company	—

Note: All are trust accounts.

3.9 The total number of shares and total equity stake held in any single enterprise by the Company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the Company:

Unit: shares; %

Investment	Investment by the Company		Investment by directors, supervisors, managers and companies controlled directly or indirectly by the Company		Total investment	
	Shares	%	Shares	%	Shares	%
Airtac Industrial (Hong Kong) Limited	26,000,000	100%	—	—	26,000,000	100%
Airtac Trading (Hong Kong) Limited	7,000,000	100%	—	—	7,000,000	100%
Instant Reach International Limited	1	100%	—	—	1	100%
Airtac Holding (Singapore) Pte. Limited	10,000,000	100%	—	—	10,000,000	100%
AMA TECH CORP.	20,000,000	20%	—	—	20,000,000	20%
Ningbo AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100%
Guangdong AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100.00%
AirTAC (China) Co., Ltd.	Note	100%	—	—	Note	100.00%
Jianliang (Shanghai) Trading Co.	Note	100%	—	—	Note	100%
AirTAC Industrial Co.	12,340,650	53.655%	—	—	12,340,650	53.655%
ATC(ITALIA)S.R.L	3,000,000	100%	—	—	3,000,000	100%
Airtac International (Singapore) Pte. Limited	9,500,000	100%	—	—	9,500,000	100%

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

March 24, 2013; 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	1	US\$ 1	—	Long-term investment	—
2009.12	US\$1	20,000,00	US\$20,000,000	19,999,996	US\$19,999,996	Capitalization of capital surplus	—	—
2010.04	TWD 10	200,000,000	2,000,000,000	64,699,999	TWD 646,999,990	(1) The originally authorized capital of US\$20,000,000 is changed to TWD 2,000,000,000 (2) Originally issued USD20,000,000 capital is converted to TWD 647,000,000.	—	Note 1
2010.06	TWD 10	200,000,000	2,000,000,000	132,999,998	TWD 1,329,999,980	Capitalization of capital surplus in the amount of TWD 683,000,000	—	Note 2
2010.12	TWD 10	200,000,000	2,000,000,000	149,999,998	TWD 1,499,999,980	Issuance of new shares in the amount of TWD170,000,000 for cash capital increase	—	Note 3

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

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

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

3. Information of Shelf Registration: N/A.

4.1. 2 Shareholder structure

March 24, 2013; Unit: Shares

Shareholder entity Quantity	Government agency	Financial institution	Other juristic person	Individuals	Foreign institutions and foreigners	Total
No. of people	-	5	28	1,163	277	1,473
No. of shares held	-	5,900,000	2,113,546	27,771,571	114,214,881	149,999,998
Percentage of ownership (%)	-	3.93%	1.41%	18.51%	76.15%	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 14.00% of stocks.

4.1.3 Dispersion of stock ownership

1. Common Shares

Face value per share: TWD 10; 2013.03.24; unit: shares

Shares	Number of shareholders	Total shares held	Percentage of ownership
1 ~ 999	103	8,994	0.01%
1,000 ~ 5,000	1,012	1,714,944	1.14%
5,001 ~ 10,000	71	573,717	0.38%
10,001 ~ 15,000	25	317,820	0.21%
15,001 ~ 20,000	29	539,772	0.36%
20,001 ~ 30,000	28	700,151	0.47%
30,001 ~ 50,000	35	1,401,724	0.94%
50,001 ~ 100,000	46	3,329,980	2.22%
100,001 ~ 200,000	30	4,417,894	2.95%
200,001 ~ 400,000	34	9,844,769	6.56%
400,001 ~ 600,000	15	7,263,400	4.84%
600,001 ~ 800,000	10	6,940,353	4.63%
800,001 ~ 1,000,000	9	8,029,383	5.35%
>1,000,001	26	104,917,097	69.94%
Total	1,473	149,999,998	100.00%

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

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

March 24, 2013; Unit: shares

Shareholding Name of major shareholder	Shares held	Percentage
Ding Kan Investment Ltd.	23,773,000	15.85%
YHZ Ltd.	9,995,850	6.66%
Core Value Fund Ltd	9,574,000	6.38%
Express Brilliant Ltd	8,665,000	5.78%
Investment Account of Central Bank of Saudi Arabia under the trust of JPM	7,738,000	5.16%
Chen Rui-Long	5,000,065	3.33%
Lin Shu-Mei	4,155,357	2.77%
Fubon Life Insurance Co., Ltd.	4,114,000	2.74%
Proud Unit Company Ltd.	3,698,426	2.47%
Lan Shun-Cheng	3,093,613	2.06%

4.1.5 Stock price, net worth, earnings, dividends per share and related information (2011-2012)

Unit: TWD; 1,000 shares

Unit: TWD, 1,000 share

Year		2011	2012	
Stock price	High	272.00	181.50	
	Low	107.00	120.50	
	Average	185.67	155.20	
Net worth per share	Basic	35.78	36.89	
	Diluted	30.48	(Note 1)	
Earnings per share	Weighted average shares	150,000	150,000	
	Earnings per share (Note 2)	9.00	7.36	
Dividends per share	Cash dividend		5.30	3.8 (Note 1)
	Stock dividend	Earnings (TWD)	—	0.7 (Note 1)
		Capital surplus (TWD)	—	—
	Accumulated unpaid dividend (Note 3)		—	—
Return analysis	Price-earnings ratio (Note 4)		20.63	21.09
	Price-dividend ratio (Note 5)		35.03	40.84
	Cash dividend yield (Note 6)		2.85%	2.45%

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

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

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

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

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

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

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 2012 dividend distribution plan passed by the board of directors in

meetings held on March 5, 2013, the Company will distribute cash dividend in the amount of RMB 0.8 (equivalent to TWD 5.3) and dividend per share of RMB 0.184 (equivalent to TWD 0.7) for 2012. Total dividends to be distributed for the year amount to TWD 674,999,991.

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

Unit: 1,000 TWD; shares

Year		2012 (Forecast)
Item		
Paid-in capital in the beginning of year		1,500,000
Stock dividend of the year	Cash dividend per share	3.8(Note 1)
	Number of shares of which the earnings being transferred to share capital	0.07 (Note 1)
	Number of shares of which the capital surplus being transferred to share capital	—
Change of business performance	Operating profit	(Note 2)
	Year on year increase (decrease) of operating profit	
	Profit after tax	
	Year on year increase (decrease) of profit after tax	
	Earnings per share	
	Year on year increase (decrease) of earnings per share	
	Average return of investment of the year (reciprocal of average price-earnings ratio of the year)	
Pro forma earnings per share and price-earnings ratio	If cash dividends are distributed instead of transferring earnings to share capital	Pro forma earnings per share
		Pro forma average return of investment
	If the capital surplus not being transferred to share capital	Pro forma earnings per share
		Pro forma average return of investment
	If the capital surplus not being transferred to share capital and cash dividends are distributed instead of transferring earnings to share capital	Pro forma earnings per share
		Pro forma average return of investment

Note 1: The stock dividends for the year 2012 are to be resolved by the Shareholders' Meeting.

Note 2: The Company does not disclose the financial forecast for the year 2012, so there's no need to disclose the estimated financial information for the year 2012.

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

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

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

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

- (1) The Company's directors do not receive distribution of earnings.
- (2) At the end of a fiscal year, significant changes in the amounts of employee bonus and remuneration to directors as decided by the board of directors will be recorded under the year's expense. If the amounts again change on the date earnings the earnings distribution plan is adopted in a shareholders' meeting, the difference will be treated as changes in accounting estimates and recorded in the year the shareholders adopt the resolution.
- (3) If it is decided in shareholders' meeting that employee bonus will be distributed in the form of stock bonus, the number of shares of stock bonus will be determined by the amount of bonus divided by the market value of stock. The market value of stock is its closing price on one day before the day the shareholders adopt the resolution (after considering of the impact of cash and stock dividends).

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 2012 totals RMB 4,938,000.
- (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 2012 financial statements, and earnings per share for the year are TWD 7.36 on such basis.

4. Information on distribution of previous year's earnings as employee bonus and remuneration to directors and supervisors: The earnings of 2011 were approved in board of directors' meeting held in 2012, and the employee bonus is RMB 8,310,000.

4.1.9 Stock buy-back: None.

4.2 Issuance of corporate bonds: None.

4.3 Issuance of preferred shares: None.

4.4 Issuance of global 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	2011		2012	
	Amount	% of revenue	Amount	% of revenue
Actuator	2,258,078	40.05%	2,356,205	41.57%
Control components	1,705,245	30.24%	1,673,727	29.53%
Air preparation units	576,677	10.23%	543,024	9.58%
Others	1,098,304	19.48%	1,095,031	19.32%
Total	5,638,304	100.00%	5,667,987	100.00%

(3) Core products (services)

Actuator(cylinder)	Standard cylinder, twin rod cylinder, pen cylinder, compact cylinder, miniature cylinder, locking cylinder, multi-position cylinder, slide table cylinder, three-axis cylinder, stopper cylinder, swing clamp cylinder, welding clamp cylinder, rodless cylinder, B05-MAL mechanical gripper, HLH compact slide cylinder, HFZ parallel gripper, HFY-Y style gripper
Control component (valve)	Solenoid valve, mechanical control valve, pneumatic control valve, manual control valve, CM3 valve, ZM3 series control valve
Air preparation unit	Two-point combination unit, filter regulator, filter, automatic drainer, pressure gauge, regulating valve, oil feeder, F.R.L. combination unit

(4) New products (services) under development

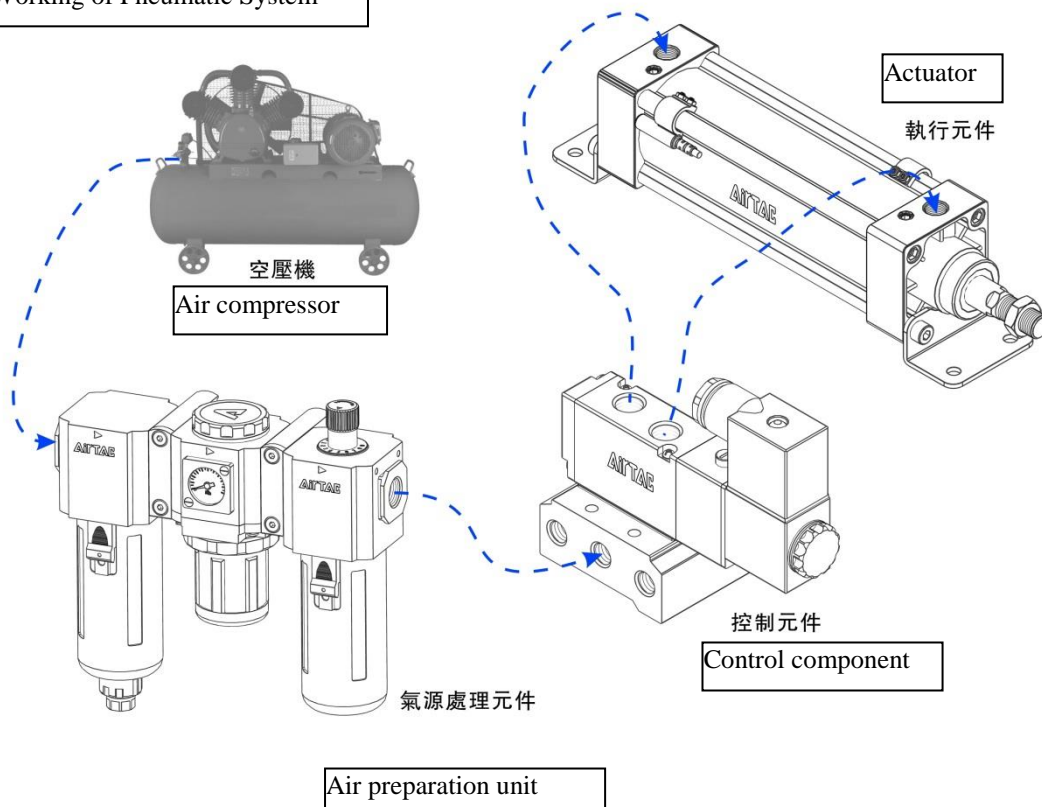
- ① Actuator (cylinder): compact cylinder (ACE series), ACQ compact cylinder, HFP mechanical parallel gripper, compact slide table with slide guide, HFT open close (180 degree) gripper, standard cylinder with square head, light loaded cylinder with aluminum tube, knocking cylinder, free mounting mini cylinder, panel cylinder with screw thread, pin cylinder, HRQ mini rotary cylinder, large size rotary cylinder, pressure cylinder, integrated welding cylinder, mechanical rodless cylinder, tight cylinder, MI/SI cylinder with guide, large size vaned rotary cylinder.
- ② Control components (valve): precision filter, SDR regulating valve, quick plug connector (with regulator), direct acting 3 way solenoid valve, drip leg drainer, precision regulating valve, fast exhausting valve, dual pressure valve, shuttle valve, high frequency valve.
- ③ Others: two-way connector, floating joint.

2. Industry overview

(1) Description of pneumatic components

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

The Working of Pneumatic System



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 work pieces.
- D. Automated metering and packaging of powder, granulated and lump materials in fertilizer, chemical, food, pharmaceutical and bioengineering industries, automated cigarette rolling and packaging in tobacco industry, and automated metering and filling of viscous liquids (e. g. paint, ink, cosmetic and toothpaste) and toxic gas (e.g. gas).

(2) International pneumatic component technology

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

(3) 2005-2012 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. 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.

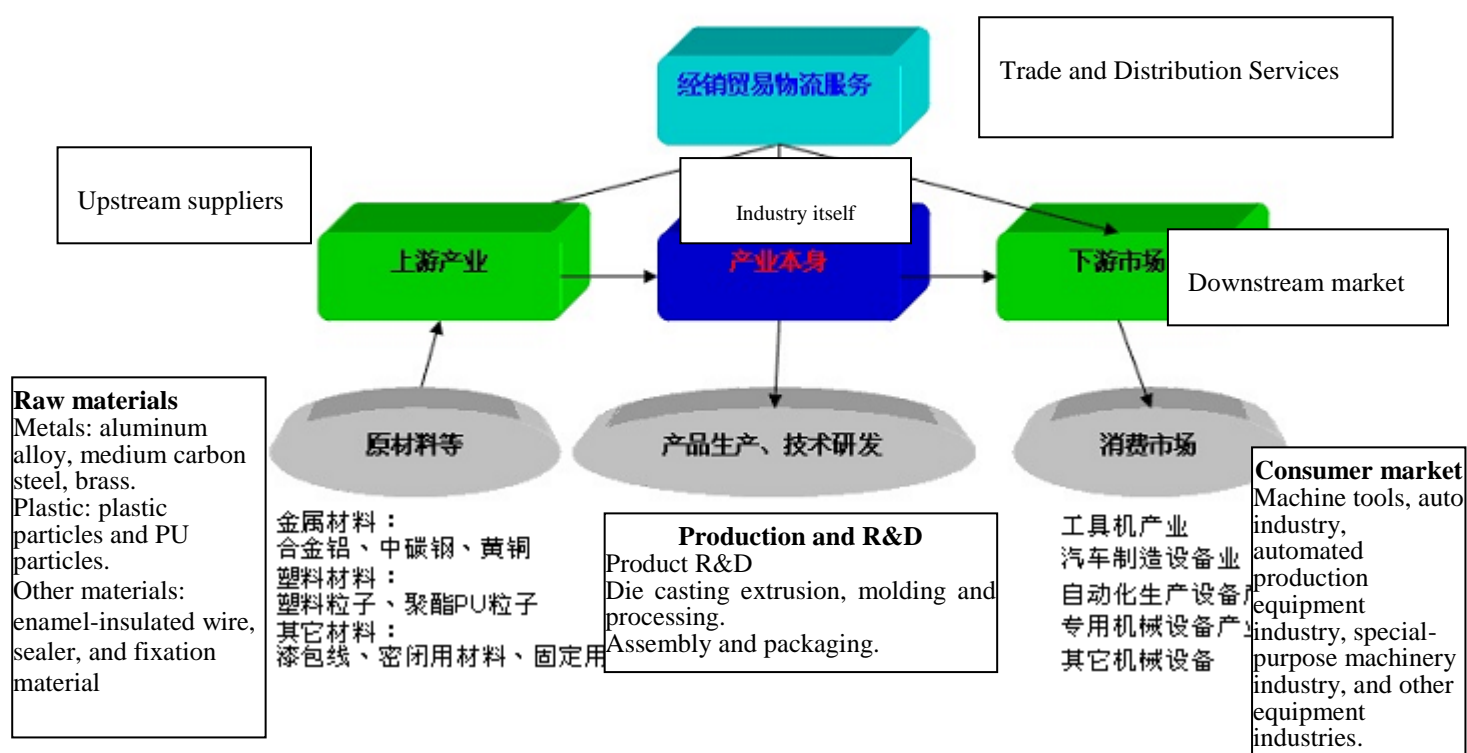
According to the statistic of the China Hydraulics Pneumatics & Seals Association, the pneumatic industry realized a total industrial output value of RMB15046 million, with a growth of 29.60% in 2011. Having been hit severely by the global recession in 2012, the

mechanical engineering industry faced global challenges and major economic indicators slumped unexpectedly. Six major economic indicators: industrial added value, gross output, profit, earning foreign exchange through exports, product output, fixed assets investment were in the trend of declining. The pneumatic industry realized a total industrial output value of RMB13913 million, with a decline of 7.5% in 2012.

(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 molding and punching technologies. The downstream are users in machinery, equipment and related application fields.



A. Upstream material supplies:

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

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

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

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

magnetic materials.

B. Downstream industries

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 brand name 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 brand name manufacturers that would be considered as competitor is limited. In China's market, major manufacturers include SMC (Japan), FESTO (Germany), and Parker (USA), of which, SMC is the market leader with 31% market share. SMC is also a leader in the world market with more than 30% market share. FESTO (Germany) is the world's second largest pneumatic component manufacturer with 9% 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. SMC 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), Parker (USA), account for 23% of market share. With the advantages of price, customized or convenient and readily available services, local manufacturers in China command 25% of market share.

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

3. Technology and R&D overview

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

The Company has been keen on nurturing R&D personnel, investing in R&D and creating a corporate environment conducive to innovation. Since 2007, 62 new products developed by the Company, including prevision twin rod cylinder, needle cylinder, oil buffer, and high-flow, low-pressure regulating valve have been included in the Ningbo City New Product R&D Initiative. The Company's R&D Center was also rated as a city-level technology

center by Fenghua City in 2008, a city-level technology center by Ningbo City, and visited by the State Council in 2009. Those honors recognize the Company's R&D Center as a major R&D facility for pneumatic products and the Company's achievements in the R&D of pneumatic products. The Company's R&D Center was accredited as a province-level R&D Center in 2011. The Company currently owns 35 appearance patents (e.g. Pneumatic Preparation Component (GL300 Oil Feeder)), 25 utility model patents (e.g. rotary cylinder), and 5 invention patents (e.g. regulating valve). Patents currently pending include an invention patent application entitled "Magnetic coupling tri-axle cylinder with adjustable buffering structure" that is now under substantive review and a utility model patent application entitled "Arresting Device" that has been accepted by the State Intellectual Property Bureau. These patents are substantial gain in the Company's efforts to enhance technological know-how and manpower quality.

AirTAC is currently developing new products at the pace of 25 to 30 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

Education \ Year	2011	2012	2013up to April 2
Master and higher	3	5	7
College	152	155	154
High school	111	76	84
Total	266	236	245

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

In TWD 1,000

Item	2008	2009	2010	2011	2012
R&D expense	49,248	87,505	44,211	114,194	178,520
Net income	2,714,119	2,861,528	4,299,093	5,638,304	5,667,987
% of net income	1.81%	3.06%	1.03%	2.03%	3.15%

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

Year	Part No.	Product
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

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

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

Year	Part No.	Product
2011	KA0022	QCK Series Swivel Clamping Cylinder
	KA0061	ESV Series Solenoid Valve
	KA0097	CM3 Series Mechanical Actuated Valve
	KA0098	RMS Series Magnetic Coupling Rodless Cylinder
	KA0090	2JS/2JW150/200/250/320 Angle Seat Valve
	KA0027	HFZ Pneumatic Gripper
	KA0100	HFY Pneumatic Gripper
	KA0030	HRQ Rotary Cylinder
	KA0039	Floating Joint
	KD0103	ZG-646E Hand Valve
2012	KA0120	ZM3 Mechanical Valve
	KA0090	2JS/3JW400/500/600 Angle Valve
	KA0061	ESV/EAV600 ISO Valve
	KA0096	ASV Solenoid Valve
	KA0135	Fast Exhausting Valve, Duel Pressure Valve, Shuttle Valve
	KA0137	Direct-acting Tri-way Valve
	KA0139	15mm Pilot Valve
	KC0127	B05-MAL Machinery
	KB0098	Hand Lever Valve with Ceramic Spool
	KA0043	One-way Valve (NRV)
	KA0115	STW Slide-table Cylinder
	KA0146	HLQ Duel Axle Precision Slide-table Cylinder
	KA0144	HLM Compact Precision Slide-table Cylinder
	KA0106	Magnetic Coupling Tri-axle Cylinder
	KA0051	ACE Compact Cylinder
	KA0143	ACQ Compact Cylinder with Large Bore Size
	KA0110	Cylinder with Valve
	KA0112	Quick Connecting Coupling
	KA0141	Guided Cylinder
	KA0145	HLF Compact Precision Slide-table Cylinder
	KA0138	Compact Rotary Cylinder
	KA0133	Pneumatic Actuator
	KA0099	SDR Regulating Valve
	KA0108	Standard Cylinder (SI/JSI/SE)
Up to the date of annual report	KA0150	SC Standard Cylinder with Large Bore Size
	KA0115	STW Slide Table Cylinder
	KA0102	Compact Slide Cylinder (Double acting type)

Year	Part No.	Product
		(Roller bearing)
	KA0121	ESV/EAV600ISO Valve

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 and reach the 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

Region	In TWD 1,000			
	2011		2012	
	Amount	%	Amount	%
Greater China (Note)	5,273,459	93.53%	5,334,484	94.12%
Others	364,845	6.47%	333,503	5.88%
Total	5,638,304	100.00%	5,667,987	100.00%

Note: Including China and Taiwan

(2) Market share

Having been hit severely by the global recession in 2012, the mechanical engineering industry faced global challenges and major economic indicators slumped unexpectedly. Six major economic indicators: industrial added value, gross output, profit, earning foreign exchange through exports, product output, fixed assets investment were in the trend of declining compared with 2011. According to the statistic of the China Hydraulics Pneumatics & Seals Association, the revenue of pneumatic components of main brands was RMB8180 million, with a decline of 2.23%. However, the Company, with the advantage of core competitiveness, realized a revenue of RMB1050 million, with a growth of 6.3% under the condition of a stagnant market and weak demand. The Company's market share in Mainland China in 2012 was about 13%, with a growth of 6.3%. The Company is expected to expand the market share and maintain the industrial leading position in 2013 after completing the key developing projects.

(3) Supply in pneumatic component market in the future

As China's pneumatic market plays an increasingly significant role in the world market and the labor charge in Mainland China increases substantially, leading to the production

automation and demands in the local market rise. In addition, Chinese State Council published the “Plan of Industrial Transformation and Upgrading (2011~2015)” in 2012, states that the industrial restructuring and upgrading in the 12th Five-Year Plan requires the development of advanced equipment manufacturing, the improvement of the R&D and integration level of basic components, the acceleration of the upgrading of key equipments, and the development of high-end equipment manufacturing, which forecasts the tremendous demands for pneumatic components.

Another theme of the 12th Five-Year Plan is to transfer the way of economical development from export-market orientation to domestic market. But the Chinese domestic market is without sales channel due to the vast territory and difficult to access the market. Moreover, the current industry of mechanical equipments requires shorter delivery time, which results in the supplier of pneumatic components having to establish sufficient and effective service network and sophistic supplying capacity with quick response for maintain the leading position in the industry.

As estimated by IMS Research, the lower-end mechanical market will be the main market for China in a medium and long term. The lower-end market is with huge mechanical production capacity and mass mechanical manufacturers, who are difficult to survive and have to pursue the products with high cost performance, which helps the enterprises with those products excel in the market. The trend of the general market is the increasing demand in customized products, mainly due to the mechanical manufacturing industry being divided into specified industries from traditional large industry. The general automatic parts in the past are not able to meet the requirement of special application, which leads to a rising demand for customized pneumatic products used in new industries like medical equipments, food machinery, security and protection monitoring, industrial camera, communication and radar, rail transit, energy-saving type injection molding machine. Thus the suppliers have to continuously work to meet customers’ requirements, and many small manufactures of pneumatic components without R&D capacity will be eliminated.

Above all, the demand for pneumatics in Chinese market in the next two years will increase because of the 12th Five-Year Plan, and suppliers with good sales network, high performance products, or high R&D capacity will domain the market.

Regarding the overseas market, the European debt crisis will not be resolved in a short term, besides the financial budget problem and challenges arise in the U.S. in 2013 and the economic in other countries does not have a bright prospect, which make the global economic hard to be improved in 2013. But the Southeast Asian market is to be focused because the “Global Investment Report 2012” released by the U.N. Conference on Trade and Development states that the foreign direct investment in Southeast Asia in 2011 was USD 117 billion, with an increase of 26%, which accelerated the industrial development in main countries in Southeast Asia.

In Southeast Asian market, most of the multi-national companies invest because of the low cost of labor. But since the beginning of 2013, the minimum wage has been raised in fast development countries like Thailand, Indonesia, and Vietnam. The largest amount, an increase of 44% was in Djakarta, the capital of Indonesia. Malaysia brings in the policy of minimum wage and driving the wage-increase trend to a high point. The preceding advantage of low cost of labor is challenged and the production rate is low, which make many companies start to estimate the automation level of the plants. Along with the wage increase in each country, the consumption market will be expanded and draw more investment of enterprises. Thus the automatic machinery manufacturing industry has large potential of development in the Southeast Asian market.

(4) Competitive edge

A. Brandname and customer recognition

The brandname “AirTAC” is composed of a few elements; “Air” means air-driven products; “T” means the Company’s products are “technological” that are key components for use in mechanical industry, meaning the Company is in “Technology Industry”; “A” denotes “Automatic”, meaning pneumatic components are an indispensable part of automation industry and machine production; “C” means “Components.” This brandname clearly embodies the features of the Company products, the industries that use the products and their applications. “亚德客 AirTAC” is now accredited as a well-known trademark of China, which can protect the AirTAC brand from infringement nationwide. In addition, because of the brand awareness and product breadth AirTAC enjoys in China, its products are now the industry standards in the local markets.

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

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

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

C. Global logistics capability

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

D. Strong and market-sensitive R&D capability

The Company spends 3 ~ 4% of its revenue on R&D. Aside from product innovation, the R&D knowhow also enables modification of custom-made products, rendering the Company highly competitive in R&D quality and flexibility.

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

E. Complete sales network

The Company has a complete sales network in China. Led by the subsidiary AirTAC (China) Co., Ltd., the Company has branch offices, representative offices and distributors throughout the urban and rural areas of China. Now the Company has 54 branch offices, 4 representative offices and more than 5400 distributors. Because the Company's clients are spread in different industries and areas, an extensive sales network gives customers quick access to AirTAC products. The Company also has more than 100 distributors in Europe, USA and Asia that allow AirTAC products to make headway into the world markets.

F. Comprehensive after-sale service system

The Company provides not just products, but also a complete set of services. Starting

from first approaching a client, the Company helps the client make the most of their existing production resources and establish improvement plan to help them save costs. Technical supports and services available to clients include production line upgrade, implementation of automation items, maintenance and repair, as well as installation, testing, planning and project design to create maximum value beyond the pneumatic products. In after-sale service, the Company offers joint warranty. That is, a buyer of a Company product from any distributor in China is entitled to receive technical services from any branch office of AirTAC in China. The Company also guarantees that a customer will receive service in 24 hours after making a request for service. This way, customers are ensured quality services and the Company will gain customer trust in the long run.

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

A. Favorable factors

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

The Chinese government mentions in the 12th 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. The “Plan of Industrial Restructuring and Upgrading” published by the State Council of China in 2012 specified the guiding concept and concrete requirement of the industrial restructuring and upgrading in the 12th Five-Year Plan and highlighted the development of advanced equipment manufacturing, the improvement of the R&D and integration level of basic components, the acceleration of the upgrading of key equipments, and the development of high-end equipment manufacturing, which forecasted the tremendous demands for pneumatic components.

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

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

along which will boost the demands for pneumatic products.

③ The emergence of green industry boosts demands for pneumatic components

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

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

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

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

The development of global economy is decelerating from 2012; the European debt crisis continues and the economy of Euro zone will come to recession. But according to the measures has been unveiled or is unveiling in Europe, the European debt crisis runs into a new turning point and the situation of causing serious global economic recession may be avoided. The change of economic situation leads to a reasonable purchase selection of automatic components by most manufacturers. That is to say, the manufacturers prefer pneumatic components with high quality and effective costs, which is a marketing advantage of the Company as compared to major rival enterprises.

B. Unfavorable factors and response strategy

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

Aluminum, 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. 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

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

Worker wages have been rising in China. According to the “Plan of Employment Promotion (2011-2015)” unveiled in 2012, the standardized average annual growth rate of minimum wage during the period of the Eleventh Five-Year Plan is 12.5% . The

minimum wage will increase by 1.84 times up to the termination of the Twelfth Five-Year Plan in 2015, even though it is calculated according to aforementioned proportion of 13%. It can be foreseen that the wage hike in Mainland China in the future will continue to accelerate.

Response strategy

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

- ④ Renminbi exchange rate against the dollar exhibits a long-term upward trend. The imports of machinery products will continue to grow at a high pace, while the export competitiveness of mid- to low-end machinery products will be further diminished, which is evidenced by the sharp decline in trade surplus for mechanical industry in 2012. The discrepancy of the economical recovering progress of each country leads to a bigger exchange rate fluctuation and brings more exchange rate risks to the companies.

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 will watch the exchange rate variation closely and hedge the risk if necessary.

2. Usage and manufacturing processes of main products

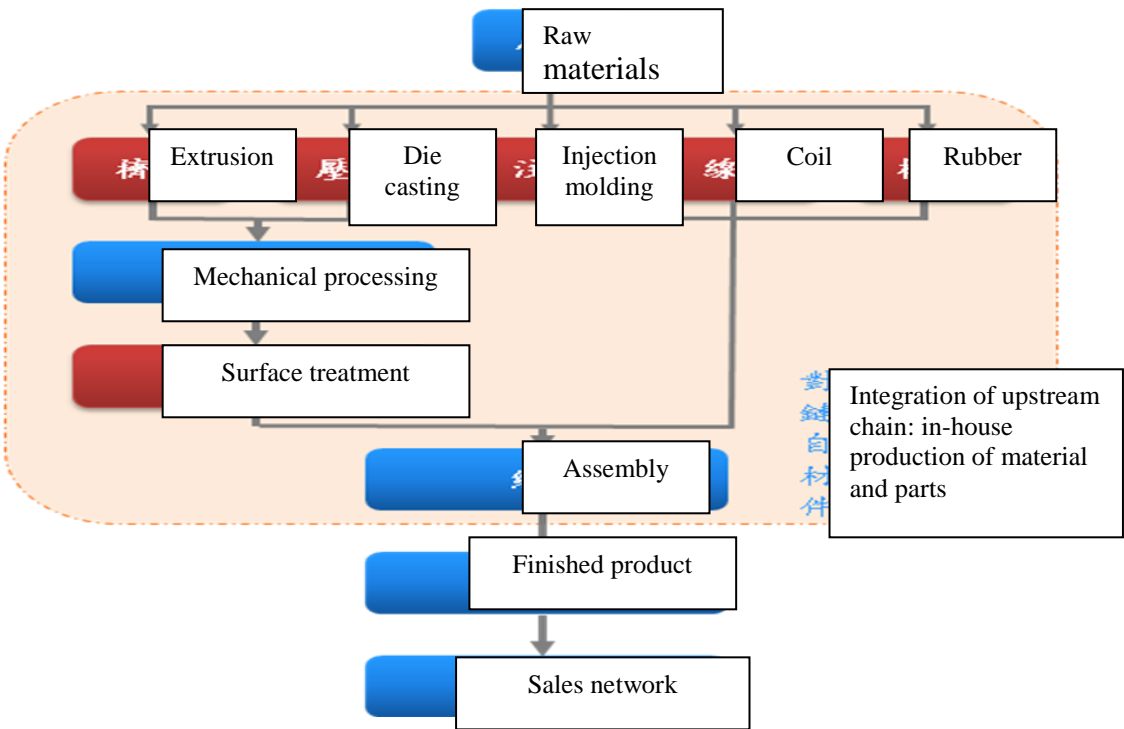
(1) Usage of main products

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

thereby changing the area of flow channel and achieving the purpose of control. Valves are used to form the switches for a pneumatic loop to control the speed of movement and control multiple sets of pneumatic systems.

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

(2) Manufacturing processes of main products



3. Suppliers of main materials

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

4. Major clientele

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

In TWD 1,000

Rank	2011				2012			
	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	175,413	9.40%	None	Yuan Tai	180,422	10.37%	None
2	Chiho-Tiande	155,441	8.33%	None	Ningbo Hengxing	104,463	6.00%	None
3	Ningbo Hengxing	84,288	4.52%	None	Yuanlifu	78,832	4.53%	None
4	Yuanlifu	59,882	3.21%	None	Ningbo Jintian	49,277	2.83%	None
5	Wuxi Chengda	53,719	2.88%	None	Chiho-Tiande	48,234	2.77%	None
6	Ningbo Jintian	51,392	2.75%	None	Gaodin Precision	40,026	2.30%	None
7	Yili Sule	39,629	2.12%	None	Yiqiu Metals	36,749	2.11%	None
8	Zhoushan Putuo	33,067	1.77%	None	Wuxi Chengda	32,508	1.87%	None
9	Dongguan Ruian	26,672	1.43%	None	Zhoushan Putuo	31,475	1.81%	None
10	Gaodin Precision	25,876	1.39%	None	Yili Sule	22,912	1.32%	None
	Others	1,160,625	62.20%		Others	1,115,571	64.09%	
	Net purchase	1,866,004	100%		Net purchase	1,740,469	100.00%	

Change analysis: Purchase from Yuan Tai in 2012 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	2011				2012			
	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	Changsha Sanyi	75,381	1.34%	None	Changsha Shenhong	50,184	0.89%	None
2	Changsha Shenhong	53,132	0.94%	None	MFD	31,595	0.56%	None
3	Qiangjin	38,681	0.68%	None	OMPA Robot	31,506	0.56%	None
4	Tianya	33,467	0.68%	None	Qiangjin	30,254	0.53%	None
5	Yiya	33,205	0.59%	None	ZOOMLION	28,340	0.50%	None
6	P&H	31,346	0.59%	None	Changsha Sanyi	27,492	0.49%	None
7	Yuanlifu	27,962	0.55%	None	CLARE	25,727	0.45%	None
8	Shenzhen Shouxin	26,253	0.49%	None	Faith Technology	25,708	0.45%	None
9	Anderson Industrial	25,872	0.46%	None	Innorev	21,730	0.38%	None
10	Shanghai Jingpu	23,952	0.46%	None	BoZhong (Wujiang)	20,970	0.37%	None
	Others	5,269,053	93.22%		Others	5,374,481	94.82%	
	Net sales	5,638,304	100%		Net sales	5,667,987	100%	

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

5. Production quantity and value in the last two years

Unit: TWD 1,000; 1,000 units

Production Main products	Year	2011			2012		
		Capacity	Output quantity	Output value	Capacity	Output quantity	Output value
Pneumatic control component		6,958	6,022	933,769	8,004	5,841	899,971
Pneumatic actuator		4,436	3,721	1,180,304	4,705	3,924	1,186,033
Air preparation unit		2,254	1,792	307,709	2,527	1,725	299,730
Others		Note	Note	180,890	Note	Note	177,733
Total				2,602,672			2,563,467

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

6. Sales volume/revenue in the last two years

Unit: TWD 1,000; 1,000 units

Sales Main product	Year	2011				2012			
		Domestic sale		Export sale		Domestic sale		Export sale	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Pneumatic control component		5,110	1,574,701	512	130,544	5,078	1,560,255	400	113,472
Pneumatic actuator		3,277	2,147,270	208	110,808	3,474	2,248,179	159	108,026
Air preparation unit		1,474	505,046	225	71,631	1,409	484,216	181	58,808
Others		23,151	1,046,440	1,223	51,864	18,112	1,041,834	899	53,197
Total		33,012	5,273,457	2,168	364,847	28,073	5,334,484	1,639	333,503

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

5.1.3 Employees

Unit: persons; %

Year		2011	2012	2013 up to the date of annual report
Number of employees	Manager and higher	85	112	107
	Staff	1,394	1,603	1,587
	Production line worker	1,469	1,587	1,699
	Total	2,948	3,302	3,393
Average age		27.15	27.55	27.57
Average years of service		3.32	3.58	3.53
Education background (%)	Ph.D.	-	0.03	0.03
	Master	0.54	0.67	0.68
	University/College	31.72	36.37	34.07

	High school	36.50	39.49	43.18
	Below high school	31.24	23.44	22.04

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.

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

● Ningbo AirTAC Automatic Industrial Co., Ltd.

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

● Guangdong AirTAC Automatic Industrial Co., Ltd.

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

● AirTAC (China) Co., Ltd.

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

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

The Company has been maintaining a harmonious relationship with its employees

and did not sustain any loss resulting from labor dispute. Moreover, the Company does not expect to sustain loss resulting from labor dispute in the coming year.

5.1.6 Major contracts

1. AirTAC International Group

Nature of contract	Counterparty	Date of contract	Content	Covenant
Loan	Ningbo AirTAC	2012.04.16~2013.04.15	The Company loans RMB 30 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 3%; the monthly interest payment is approximately RMB 50,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.05.16~2013.05.15	The Company loans RMB 30 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 3%; the monthly interest payment is approximately RMB 75,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.06.19~2013.06.18	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 7,600 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.07.17~2013.7.16	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 7,600 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.09.13~2013.09.12	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8,333 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2012.10.11~2013.10.10	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8,333 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None

Nature of contract	Counterparty	Date of contract	Content	Covenant
Loan	Ningbo AirTAC	2012.11.08~2013.11.07	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 8,333 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2013.01.14~2014.01.13	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of (SIBOR 1 year + 1%)/0.844; the monthly interest payment is approximately USD 7,660 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	Ningbo AirTAC	2013.03.08~2014.03.07	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of (SIBOR 1 year + 1%)/0.844; the tax shall be withheld and remitted by the borrower and covered by the loaner, the monthly interest payment is approximately USD 8300 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	ATC Italia	2012.11.04~2013.11.03	The Company loans EUR 1 million to ATC (Italia) S.r.l.	None
Loan	ATC Italia	2012.12.21~2013.12.20	The Company loans EUR 500,000 to ATC (Italia) S.r.l.	None
Loan	AirTAC International (Singapore)	2012.07.04~2013.07.03	The Company loans USD 5 million to AirTAC Holding (Singapore)	None

2. Ningbo AirTAC

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	The Company	2012.04.16~2013.04.15	The Company loans RMB 30 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 3%; the monthly interest payment is approximately RMB 50,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2012.05.16~2013.05.15	The Company loans RMB 30 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 3%; the monthly	None

Nature of contract	Counterparty	Term of contract	Content	Covenant
			interest payment is approximately RMB 75,000 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	
Loan	The Company	2012.06.19~2013.06.18	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 7,600 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2012.07.17~2013.07.16	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 7,600 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2012.09.13~2013.09.12	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8,333 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2012.10.11~2013.10.10	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of SIBOR (1 year) + 1%; the monthly interest payment is approximately USD 8,333 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2012.11.08~2013.11.07	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 8,333 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2013.01.14~2014.01.13	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of (SIBOR 1 year + 1%)/0.844; the	None

Nature of contract	Counterparty	Term of contract	Content	Covenant
			monthly interest payment is approximately USD 7,660 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	
Loan	The Company	2013.03.08~2014.03.07	The Company loans USD 4.9 million to Ningbo AirTAC at the agreed rate of (SIBOR 1 year + 1%)/0.844; the tax shall be withheld and remitted by the borrower and covered by the loaner, the monthly interest payment is approximately USD 8300 (after tax). Ningbo AirTAC should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Construction	Ningbo Yuan Shen Construction Co.	2012.02.01~2013.04.01	The construction project of the third phrase dormitory with total contract price of RMB 60 million.	None

3. Guangdong AirTAC

Nature of contract	Counterparty	Date of contract	Content	Covenant
Construction	Hunan Chuanggao Construction Co., Ltd.	2012.06.05	Hunan Chuanggao Construction Co., Ltd. is awarded the contract to build the gardens on the 1 st Floor and the area in front of the plant at a total price of RMB 4.47 million.	None
		2012.08.25	Hunan Chuanggao Construction Co., Ltd. is awarded the contract to build the new and restructured plants and decoration at a total price of RMB 10.8 million.	None
Construction	Shaoguan Linyuan Construction Co., Ltd.	2013.01.18	Shaoguan Linyuan Construction Co., Ltd. is awarded the contract to build one of the plant in Nanhai District and a dormitory at a total price of RMB 59.8 million.	None

4. Jianliang (Shanghai)

Nature of contract	Counterparty	Contract date	Content	Covenant
Product distribution	Shanghai Jun Tai Automation Equipment Co.	2012.01.01~2012.12.31	Shanghai Jun Tai Automation Equipment Co. is a distributor of AirTAC products in Shanghai area.	None
Product sales	Hunan San Yi Lu Mian Machinery Co.	2012.01.01~2012.12.31	The parties sign a 2012 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the	None

Nature of contract	Counterparty	Contract date	Content	Covenant
			terms of the agreement (actual shipment is agreed on in a separate agreement)	
Product distribution	Shanghai Shanke Automation Equipment Co.	2012.01.01~2012.12.31	Shanghai Shanke Automation Equipment is a distributor of AirTAC products and accessories in Shanghai area.	None
Product distribution	Tianjin AirTAC Automation Equipment Co.	2012.01.01~2012.12.31	Tianjin AirTAC Automation Equipment is a distributor of AirTAC products and accessories in Tianjin area.	Addendum
Product distribution	Jinan Yuanlifu Trading Co.	2012.01.01~2012.12.31	Jinan Yuanlifu Trading will be a distributor of AirTAC products and accessories in Jinan area.	Addendum
Product sales	Changsha Shenhong Machinery Co.	2012.01.01~2012.12.31	The parties sign a 2012 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement.	None
Product Sales	Shanghai Hirain Technologies Corporation	2012.02.22~2013.02.21	The parties sign a sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement.	None
Product Sales	Zoomlion Heavy Industry	2012.01.01~2012.12.31	The parties sign a 2012 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement. (actual shipment is agreed on in a separate agreement)	None

5. AirTAC Taiwan

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	Taiwan Cooperative Bank	A loan agreement signed on May 27, 2010	The Bank provides TWD 400,000,000 line of credit.	None
Mortgage	Taiwan Cooperative Bank	Contract signed between 2005 and 2008, and the mortgage will last until 2038.07.30	The Company mortgages its plant and land in Tucheng to Taiwan Cooperative Bank as guarantee for its loan provided to AirTAC Taiwan.	None
Property insurance	South China Insurance Co., Ltd.	2012.08.10~2013.08.10	The objects of insurance are buildings, equipments, business activity, goods, and the amount is TWD 467,000,000.	None

6. AirTAC (China) Co., Ltd.

Nature of contract	Counterparty	Term of contract	Content	Covenant
Product sales	Hunan San Yi Lu Mian Machinery Co.	2012.12.23	The parties sign a 2013 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement (actual shipment is agreed on in a separate agreement)	None
Product Sales	Zoomlion Heavy Industry	2012.11.02	The parties sign a 2013 sales agreement involving pneumatic components, where sale will be settled according to tax-included unit price and the terms of the agreement (actual shipment is agreed on in a separate agreement)	None
Construction	Ningbo Yuansheng Construction Co., Ltd.	2011.09.28	Ningbo Yuansheng Construction Co., Ltd. is awarded the contract to build the guard's room and power supply project of the Sales HQ & Logistic Center (with the contract amount of RMB 75.65 million)	None
Construction	Fenghua Daqiao Xinxing Decoration Co.	2012.12.14	Fenghua Daqiao Xinxing Decoration Co. is awarded the contract to decorate the Sales HQ & Logistic Center (with the contract amount of RMB 14.3 million)	None

7.ATC (Italia) S.r.l.

Nature of contract	Counterparty	Date of contract	Content	Covenant
Loan	The Company	2012.11.04~2013.11.03	The Company loans EUR 1 million to ATC (Italia) S.r.l.	None
Loan	The Company	2012.12.21~2013.12.20	The Company loans EUR 500,000 to ATC (Italia) S.r.l.	None

8.AirTAC International (Singapore)

Nature of contract	Counterparty	Date of contract	Content	Covenant
Loan	The Company	2012.07.04~2013.07.03	The Company loans USD 5 million to AirTAC Holding (Singapore)	None
Plant transaction	Sin Hiap Choon Pte Ltd	2011.08.18	Total price of transaction is SGD 8,560,000.	None
Construction	E-TACT Builders Pte. Ltd.	2012.02.26	Total price of the plant construction is SGD 5,820,800.	None
Land lease	JTC Corporation	2012.12.16~2013.12.15	Signed a lease agreement with JTC Corporation with a monthly rent of SGD 9,608.23.	None

6. Financial Highlights

I. Condensed Balance Sheets and Statements of Income (2008 ~ 2012):

6.1 Condensed balance sheet and statements of income

1. Condensed balance sheet

In 1,000 TWD

Year		Financial information, 2008 ~ 2012				
		2008 (Note 1)	2009 (Note 1)	2010 (Note 1)	2011 (Note 1)	2012 (Note 1)
Current assets		1,429,132	1,711,428	3,751,021	4,017,590	3,928,822
Funds and long-term investments		—	—	—	—	286,739
Fixed assets		2,555,853	2,544,151	2,790,964	4,282,670	5,628,481
Intangible assets		90,505	84,417	126,109	187,249	184,132
Other assets		29,293	39,647	41,914	73,990	123,614
Total assets		4,104,783	4,379,643	6,710,008	8,561,499	10,151,788
Current liabilities	Basic	782,401	1,340,167	1,306,903	2,548,021	4,053,556
	Diluted	—	—	2,027,953	3,343,021	(Note 2)
Long-term liabilities		1,167,834	446,171	666,939	258,394	235,891
Other liabilities		121,160	154,702	203,071	241,401	181,243
Total liabilities	Basic	2,071,395	1,941,040	2,176,913	3,047,816	4,470,690
	Diluted	—	—	2,897,963	3,842,816	(Note 2)
Capital stock		647,000	647,000	1,500,000	1,500,000	1,500,000
Capital surplus		707,131	1,642,892	1,991,694	2,156,080	2,090,146
Retained earnings	Basic	444,232	7,063	1,046,373	1,761,832	2,021,990
	Diluted	—	—	325,323	966,832	(Note 2)
Unrealized gain(loss) on financial instruments		—	—	—	—	—
Cumulative translation adjustments		(31,155)	12,480	(127,043)	(51,567)	(75,669)
Net loss not recognized as pension cost		—	—	—	—	(2,849)
Total stockholders' equity	Basic	2,033,388	2,438,603	4,533,095	5,513,683	5,681,098
	Diluted	—	—	3,812,045	4,718,683	(Note 2)

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

Note 2: The 2012 earnings distribution still awaits the approval of shareholders' meeting.

2. Condensed statements of income

In 1,000 TWD

Item \ Year	Financial information, 2008 ~ 2012				
	2008 (Note 1)	2009 (Note 1)	2010 (Note 1)	2011 (Note 1)	2012 (Note 1)
Operating revenue	2,714,119	2,861,528	4,299,093	5,638,304	5,667,987
Gross profit	1,283,564	1,476,609	2,275,223	2,919,419	2,967,865
Operating income (loss)	600,610	778,974	1,362,936	1,783,716	1,515,997
Non-operating income and gain	16,353	45,335	75,794	68,148	73,703
Non-operating expenses and loss	92,758	80,746	53,843	36,051	51,656
Income before tax from continuing operations	524,205	743,563	1,384,887	1,815,813	1,538,044
After-tax income (loss) from continuing operations	415,967	550,215	1,049,947	1,376,768	1,117,791
Income (loss) on discontinued operations	—	—	—	—	—
Extraordinary items	—	—	—	—	—
Cumulative effect of change in accounting principle	—	—	—	—	—
Net income (loss)	415,967	550,215	1,049,947	1,376,768	1,117,791
Earnings per share (TWD) (Note 2)	2.68	3.45	7.76	9.00	7.36

Note 1: 2008 pro forma consolidated financial statements and 2009~2012 consolidated financial statements have been audited and certified by CPA.

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

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

Year	Name of certifying accountant	Name of accounting firm	Audit opinion
2008	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note)
2009	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Modified unqualified opinion (Note)
2010	Jacky M. Chen, K.W. Lai	Deloitte & Touche	Unqualified opinion
2011	Hsieh Ming-Chuang, Jacky M. Chen	Deloitte & Touche	Unqualified opinion
2012	Hsieh Ming-Chuang, Jacky M. Chen	Deloitte & Touche	Unqualified opinion

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

II. Financial Analysis (2008~ 2012)

Item \ Year		Financial analysis				
		2008	2009	2010	2011	2012
Financial structure	Debt to asset ratio	50.46	44.32	32.44	35.60	44.04
	Long-term capital to fixed assets ratio	125.25	113.39	186.32	134.78	105.13
Solvency	Current ratio (%)	182.66	127.70	287.02	157.67	96.92
	Quick ratio (%)	104.44	87.85	233.21	118.70	70.22
	Times interest earned ratio	7.68	13.75	30.31	68.58	36.37
Operating ability	Accounts receivable turnover ratio (times)	4.80	4.56	4.93	4.72	3.85
	Average collection period (days)	76.00	80.04	74.03	77.33	94.80
	Inventory turnover ratio (times)	2.59	2.47	3.29	3.23	2.61
	Accounts payable turnover ratio (times)	6.43	9.14	9.42	10.09	9.22
	Average days to sell inventory	140.92	147.77	110.94	113.00	139.84
	Fixed asset turnover ratio (times)	1.13	1.12	1.61	1.59	1.14
	Total asset turnover ratio (times)	0.66	0.65	0.64	0.66	0.56
Profitability	Return on total assets (%)	12.12	14.00	19.58	18.30	12.28
	Return on stockholders' equity (%)	20.91	24.61	30.12	27.41	19.97
	% of paid-in capital (%)	Operating income	92.83	120.40	90.86	118.91
		Income before income tax	81.02	114.92	92.33	121.05
	Net income ratio (%)	15.33	19.23	24.42	24.42	19.72
	Earnings per share (NTD)	2.68	3.45	7.76	9.00	7.36
Cash flow	Cash flow ratio (%)	65.67	50.82	81.41	43.43	26.08
	Cash flow adequacy ratio (%)	Note 3	Note 3	Note 3	64.49	59.45
	Cash reinvestment ratio (%)	6.60	2.50	17.52	13.89	3.66
Leverage	Operating leverage	1.31	1.23	1.14	1.15	1.22
	Financial leverage	1.15	1.08	1.04	1.02	1.03

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

1. Debt to asset rate declined and current ratio & quick ratio increased, mainly due to the expansion in capacity and acquisition of short-term loans with low lending rate.
2. Long-term capital to fixed assets ratio declined, mainly due to the improvement of operating efficiency and investment in the construction of the R&D Center, Sales HQ & Logistic Center, and plants.
3. Times interest earned ratio increased and cash flow rate declined, mainly due to the expansion in production capacity, increase in short-term loans and the decrease in net profit after tax because of the market environment's influence on revenue.
4. Accounts payable turnover ratio declined and average days to sell inventory increased, mainly due to the discrepancy of customers and sales group.
5. Inventory turnover ratio declined, mainly due to the increase in estimated orders and the increase of inventory

because of the recovered market demands.

6. Fixed asset turnover ratio, return on assets, and return of shareholders' equity declined, mainly due to the capital expenditure on expanding production capacity in 2012, and the growth of revenue being out of expectation under the impact of the market environment.

Note 1: 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.

Note2: 2008 pro forma consolidated financial statements and 2009~2012 consolidated financial statements have been audited and certified by CPA. The consolidated financial statements for Q1 2012 were only examined by CPA.

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.

5. Cash flow

(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).

6. Leverage:

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

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

III. Audit Committee Report

AirTAC International Group Audit Committee Report

We have examined the 2012 consolidated financial statements, together with business report and earnings distribution proposal prepared by the Board of Directors and audited and certified by the Audit Committee and did not find any discrepancy. We hereby produce this report in accordance with provisions specified in Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and submit it for your review.

To

2013 General Shareholders' Meeting

AirTAC International Group

Member of Audit: Chang Bao-Guang

Independent Director: Chiang Chih-Chun

Independent Director: Leong Kam-Son

March 5, 2013

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 have encountered financial difficulties in the most recent year or in the current year up to the date of annual report, the impact of such situation on the Company's financial status:
N/A.

7. Financial Status, Operating Performance and Risk Evaluation

7.1 Analysis of financial status

Unit: TWD 1,000; %

Year Item	2011	2012	Difference	
			Amount	%
Current assets	4,017,590	3,928,822	(88,768)	(2)
Funds and long-term investments	—	286,739	286,739	—
Fixed assets	4,282,670	5,628,481	1,345,811	(31)
Intangible assets	187,249	184,132	(3,117)	(2)
Other assets	73,990	123,614	49,624	67
Total Assets	8,561,499	10,151,788	1,590,289	19
Current liabilities	2,548,021	4,056,556	1,505,535	59
Long-term liabilities	258,394	253,891	(22,503)	(9)
Other liabilities	241,401	181,243	(60,158)	(25)
Total liabilities	3,047,816	4,470,690	1,422,874	47
Capital stock	1,500,000	1,500,000	-	-
Capital surplus	2,156,080	2,090,146	(65,934)	(3)
Retained earnings	1,761,832	2,021,990	260,158	15
Cumulative translation adjustment	(51,567)	(75,669)	(24,102)	(47)
Net loss not recognized as pension cost		(2,849)	(2,849)	—
Total stockholders' equity	5,513,683	5,681,098	167,415	3
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 funds and long-term investments were mainly due to obtaining raw materials of consistent quality and pricing, promoting group integrity and profitability.				
2. Change in fixed assets and total assets were mainly due to expanding capacity, promoting operation efficiency, building R&D Center and Sales HQ & Logistic Center and plants.				
3. Change in other liabilities and long-term liabilities were mainly due to decrease in borrowing cost and US dollar loans to repay RMB long-term loans and deal with the daily operating capital needs.				
4. Change in retained earnings and total stockholders' equity were mainly due to stable growth of profit for the current year.				

7.2 Operating Performance

7.2.1 Analysis of operating performance

Unit: TWD 1,000; %

Item \ Year	2011	2012	Change	
			Amount	%
Total sales revenue	5,641,310	5,669,887	28,577	1
Net sales revenue	5,638,304	5,667,987	29,683	1
Operating cost	2,718,885	2,700,122	(18,763)	(1)
Gross profit	2,919,419	2,967,865	48,446	2
Operating expense	1,135,703	1,451,868	316,165	28
Operating income	1,783,716	1,515,997	(267,719)	(15)
Non-operating income	68,148	73,703	5,555	8
Non-operating expense	36,051	51,656	15,605	43
Net income before tax	1,815,813	1,538,044	(277,769)	(15)
Less: Income tax expense	439,045	420,253	(18,792)	(4)
Net income after tax	1,376,768	1,117,791	(258,977)	(19)
Change in amount exceeding 10% and the amount accounting for 1% or more of year's total assets:				
1. Change in operating Expense was due to expanding sales network, brand marketing, and personnel recruitment to strengthen R&D Center.				
2. Due to expanding sales network, brand marketing, and personnel recruitment to strengthen R&D Center, Net income after tax was lower than year 2011.				

7.3 Cash Flows

1. Cash flows analysis

Unit: TWD 1,000; %

Item \ Year	2011	2012	Amount of increase (decrease)	Increase (decrease) (%)
Inflow from operating activities	1,104,177	1,057,260	(46,917)	(4)
Outflow in investing activities	1,858,050	2,087,219	229,169	12
Inflow (outflow) in financing activities	(97,707)	670,870	768,577	(787)
Change analysis:				
1. Operating activity: Due to expanding sales network, brand marketing, and personnel recruitment to strengthen R&D Center, Inflow from operation activities was lower than year 2011.				
2. Investing activity: Due to obtaining raw materials of consistent quality and pricing, promoting group integrity and profitability, Outflow from operation activities was higher than year 2011				
3. Financing activity: Increase in net cash inflow was mainly due to cash capital increase undertaken in 2012.				

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

The Company has formulated several capital spending plans for 2013. The anticipated profit growth in 2013 is expected to provide net cash inflow from operating activities in the year and cover the cash outflows in investing and financing activities. Hence the Company does not anticipate liquidity problem.

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

The Company acquired TWD 1,562,751,000 and TWD 1,713,342,000 of fixed assets in 2011

and 2012, 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	2010	2011	2012
Fixed asset turnover ratio (times)	1.61	1.59	1.14
Total asset turnover ratio (times)	0.64	0.66	0.56

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 plan, the Company will invest in the industry of linear guide to deepen the vertical integration and accelerate the ability of product development and production capacity. Also, reinvestment in the distribution channel will be conducted to increase the Company's revenue, expand the production scale, and improve the Company's capacity of integration and profitability.

The reinvestment 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	1,106,023	Profit comes mainly from recognition of profit from investees Ningbo AirTAC, Gaungdong AirTAC, and AirTAC China.
Airtac Trading (Hong Kong) Limited	110,186	Profit comes mainly from recognition of profit from investees Jianliang (Shanghai).
Instant Reach International Limited	(9,786)	Loss comes mainly from recognition of loss from investees AirTAC Industrial Co. and ATC(ITALIA) S.R.L.
Airtac Holding (Singapore) Pte. Limited	(28,146)	Loss comes mainly from recognition of loss from investees Airtac International (Singapore) Pte. Limited.
Ningbo AirTAC Automatic Industrial	572,514	Expansion of operations.

Investee	Profit (loss) in the most recent year	Remark
Co., Ltd.		
Guangdong AirTAC Automatic Industrial Co., Ltd.	182,644	Expansion of operations.
AirTAC (China) Co., Ltd.	431,511	Expansion of operations.
Jianliang (Shanghai) Trading Co.	120,885	Recognition of decrease in investment gains comes from the operation activities being transferred to AirTAC (China)
AirTAC Industrial Co.	29,964	Recognition of decrease in investment gains mainly comes from the decline of export sales ratio
ATC (ITALIA) S.R.L	(18,598)	The accumulated deficit mainly comes from the recruitment of new salesmen, the establishment of inventory and the expansion of the assembly plant for the purpose of enlarging the European market shares.
Airtac International (Singapore) Pte. Limited	(25,984)	The operation has not reached economy of scale.
AMA TECH CORP.	(251)	The operation has not reached economy of scale.

3. Investment plan for the coming year

- (1) The Company will establish a sales company in Japan in the 2nd quarter of 2013 and establish operation branches in Malaysia and Thailand to expand operations and increase overseas market shares.
- (2) Continue to invest and complete the building and expansion of the Sales HQ and Logistic Center.
- (3) The Company will establish a plant in Taiwan to meet the production and R&D requirement of the Company.

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 2011 and 2012 was TWD 26,869,000 and TWD 43,490,000 respectively; accounting for respectively 1.51% and 2.87% 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 2009 ~ 2012 was \$(14,501,000), \$35,986,000, \$36,694,000, and \$19,296,000 respectively, accounting for a very low percentage of the year's operating profit, at (1.86) %, 2.64%, 2.06%, and 1.27% respectively.

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

Response measures:

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

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

stimulus packages launched by countries quickly increase their budget deficits and leads to loose liquidity that could cause inflation concerns.

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

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

The Company has established “Procedure for Acquisition and Disposal of Assets”, “Procedure for Providing Loans to Others”, “Procedure for Endorsement and Guarantee Operation”, and “Procedure for Derivatives Transactions” for compliance by the Company and subsidiaries in undertaking related activities. As of date of annual report, the Company did not engage in any high-risk, high-leverage investments or derivatives transactions, but only provide loans to subsidiaries ATC, Airtac International (Singapore), Ningbo AirTAC 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 therefore 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 1.03%, 2.03%, and 3.15% respectively in the past three years, showing a general rising trend. The Company will continue to put in more R&D resources in line with the product development plans. If the Company fails to allocate resources to R&D in the future,

future product development and R&D projects could be constrained, or the Company's products could no longer keep up with the market trends or customer demands. Furthermore, the Company could lose customer orders that could produce material adverse impact on the Company's operations.

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

The Company is registered in Cayman Islands and operates primarily in Taiwan, Hong Kong and China. Cayman Islands is a territory where financial services constitute its major economic activities, whereas China is a major economy in the world. The pneumatic components developed and sold by the Company are not in a concession business. In addition, the Company operates its businesses in compliance with government policies and local and foreign laws. The Company constantly watches the trends of important government policies and changes in legal environment at home and abroad, respond readily to the changing market environment, and take appropriate actions. Up to 90% of the Company's clientele are located in China. The Company's major suppliers are also located in China. Given the special political relationship between China and Taiwan, the businesses of the Company's clients, suppliers, and of the Company itself could be influenced by the political, economic and legal environments in China and Taiwan. If the government policies, tax laws, economic situation or interest rate in China or Taiwan change, or if there are any political, diplomatic or social events involving China and Taiwan that affect the Company's clients or suppliers, the Company's businesses could be affected as well. The Company has been developing clientele and suppliers in other areas to minimize the aforementioned risks.

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

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

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

Guided by the principle of honesty and the spirit of solid pragmatism, the Company has been operating based on the beliefs of "People Oriented, Commitments, Profit Sharing and Common Development" to strengthen internal management, and improve quality and

efficiency. The Company continues to bring in outstanding and talented personnel to strengthen the management team. The Company shares its positive operating results with shareholders and acts as a good corporate citizen in giving back to the society. The Company maintains a good corporate image and is presently free of any incident that changes corporate image or puts the Company in crisis.

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

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

If the Company plans to undergo M&A in the future, the Company will make careful evaluation and submit it to the board of directors in advance for approval, and in addition, propose it to the shareholders’ meeting for approval with the adoption of a special (supermajority) resolution in accordance with the Company’s articles of association before proceeding with the M&A. Such procedural requirement is to ensure full preparation and communication beforehand so as to minimize any adverse effect of M&A.

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

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. Overall the Group does not run the risk of over-concentration in purchase

(2) Client concentration:

The Group sells primarily pneumatic components which are applied extensively in the automated machinery used in more than 50 industries, such as packaging, printing, plastic, bottle filling, ultrasound, healthcare, pharmaceutical, ceramic, welder, construction, lathe machine, sewing, automation, metallurgy, automobile, electronic, road construction, dyeing and finishing, weighing, textile, plastic, rinsing, and shoe making. No sale to any

single customer accounts for more than 5% of the Group's total sales. Thus the Group does not run the risk of client concentration.

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

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

The Company did not have management rights changing hands in the most recent year and up to the date of annual report. The Company has been stepping up corporate governance by bringing in independent directors and established an audit committee to ensure greater shareholder protection. The Company relies mostly on professional managers in daily operations. The strong professional management team has made considerable contribution to the Company operations and should continue to have the support of shareholders in the future. Thus any change to management rights in the future is not expected to have material negative effect on the competitive advantage of the Company in management and operation.

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

13. Other major risks and response measures

(1) Please see the section of the report on factors advantageous and disadvantageous to the future prospects of the Company and response measures for other major operational risks faced by the Company.

(2) Risk of patent infringement: Under the trends of global economic liberalization, many companies would use patent infringement lawsuit as a strategic instrument to disrupt the business development of rivals. Thus as the Company continues to grow, the likelihood of facing patent infringement lawsuit from competitors also rises.

(3) The Company has set up a unit to take charge of application and management of patents and trademark to protect its intellectual property rights. But those moves cannot assure that the Company's intellectual properties are fully protected from infringement by competitors or other companies.

(4) Possible lack of full protection under specific circumstances

The operations of a company are faced with a variety of risks and hazards, such as equipment breakdown, damage or malfunction, delay in delivery of equipment, limited

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

7.7 Other important matters: None.

8. Special Notes

8.1 Profile of Subsidiaries and Affiliates:

8.1.1 Organization chart: Please see Company Overview

8.1.2 Profile of affiliates

In \$1,000

Name of affiliate	Date of establishment	Address	Paid-in capital	Major businesses or products
Airtac Industrial (Hong Kong) Limited	2008.11.10	Suites 2302-6, 23/F., Great Eagle Ctr., Harbour Road, Wanchai, Hong Kong	USD 61,000 RMB 64,000	General investment
Airtac Trading (Hong Kong) Limited	2008.11.10	Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong	USD 7,000	General investment
Instant Reach International Limited	2006.04.18	Room 1801, Wing On Central Building, 26 Des Voeux Road C, Central, Hong Kong	USD 8,840	General investment
Airtac Holding (Singapore) Pte. Limited	2011.08.11	1 Jalan Remaja #04-08J Hillview House Singapore (668662)	USD 10,000	General investment
Ningbo AirTAC Automatic Industrial Co.	2001.08.16	No. 88, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China	USD 32,000	R&D, production and sales of cylinders and air preparation units
Guangdong AirTAC Automatic Industrial Co.	2006.09.30	Building 19, Julong Industrial Zone, Xicha Rd., Guangxi City, Guangzhou Province, China	USD 6,000	Production of valves
AirTAC (China) Co., Ltd.	2011.05.06	No. 88, Si Ming E. Road, Fenghua Hi-Tech Park, Jejiang Province, China	USD 18,000 RMB 96,000	Sales of cylinders, valves, and air preparation units
Jianliang (Shanghai) Trading Co.	2006.09.10	F6, No. 58, Xiangcheng Rd, Pudong New District, Shanghai, China	USD 7,000	Sales of cylinders, valves and air preparation components
AirTAC Industrial Co.	2008.06.10	23 Ziyou Road, Tucheng City, Taipei County	NTD 230,000	Production and sales of cylinders
ATC (ITALIA) S.R.L.	2008.06.10	Via San Vittore 16, 20123 Milano, Italy	EUR 3,000	Sales of cylinders, valves and air preparation components
Airtac International (Singapore) Pte. Limited	2011.08.11	12 Gul Drive Singapore (629463)	USD 9,500	Production and sales of cylinders, valves and air preparation units

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

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

Unit: 1,000 shares

Name of affiliate	Title	Name	Shares held (Note)	Shareholding (Note)
Airtac Industrial (Hong Kong) Limited	Chairman	Wang Shih-Chung	2,069,680	100.00%
Airtac Trading (Hong Kong) Limited	Chairman	Wang Shih-Chung	203,280	100.00%
Instant Reach International Limited	Chairman	Wang Shih-Chung	256,714	100.00%
	Director	Wang Hai-Ming	256,714	100.00%
	Director	Shih Ming-Te	256,714	100.00%
Airtac Holding (Singapore) Pte. Ltd	Chairman	Wang Shih-Chung	290,400	100.00%
Ningbo AirTAC Automatic Industrial Co., Ltd.	Chairman	Wang Shih-Chung	929,280	100.00%
	President	Li Hui-Wen	929,280	100.00%
	Director	Lin Yong-Feng	929,280	100.00%
	Director	Wang Hai-Ming	929,280	100.00%
	Director	Wang Shan-Wen	929,280	100.00%
	Director	Lin Chiang-Ti	929,280	100.00%
	Supervisor	Gordon Shaw	929,280	100.00%
Guangdong AirTAC Automatic Industrial Co.	Chairman	Lin Chiang-Ti	174,240	100.00%
	President/ Director	Lin Yong-Feng	174,240	100.00%
	Director	Wang Shih-Chung	174,240	100.00%
	Director	Wang Hai-Ming	174,240	100.00%
	Director	Wang Shan-Wen	174,240	100.00%
	Supervisor	Gordon Shaw	174,240	100.00%
AirTAC (China) Co., Ltd.	Chairman	Wang Shih-Chung	970,080	100.00%
	President/ Director	Lin Chiang-Ti	970,080	100.00%
	Director	Gordon Shaw	970,080	100.00%
	Director	Wang Hai-Ming	970,080	100.00%
	Director	Zhou Hong-Yuan	970,080	100.00%
	Supervisor	Lin Yong-Feng	970,080	100.00%
Jianliang (Shanghai) Trading Co.	Chairman	Wang Shih-Chung	203,280	100.00%
	President/ Director	Lin Chiang-Ti	203,280	100.00%
	Director	Gordon Shaw	203,280	100.00%
	Director	Wang Hai-Ming	203,280	100.00%
	Director	Wang Hong-Bing	203,280	100.00%
	Supervisor	Lin Yong-Feng	203,280	100.00%
ATC (ITALIA) S.R.L.	Chairman	Tsao Yung-Hsiang	115,470	100.00%
	President/ Director	Lin Chiang-Ti	115,470	100.00%
	Director	Wang Shih-Chun	115,470	100.00%
AirTAC Industrial Co.	Chairman	Wang Shih-Chung	—	—
	President/ Director	Yang Kuo-Yi	230	1.00%
	Director	Yeh Long-An	1,553	6.75%
	Director	Lin Wen-Tan	828	3.60%
	Director	Lan Shun-Cheng	—	—
	Supervisor	Gordon Shaw	—	—
Airtac International (Singapore) Pte. Ltd	Chairman	Wang Shih-Chung	275,880	100%
	President	Lin Chiang-Ti	275,880	100%

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

8.1.5 Operational highlights of affiliates

In \$1,000

Name of enterprise	Paid-in capital	Total assets	Total liabilities	Net worth	Operating income	Operating profit (loss)	Profit (loss) for the period	Earnings per share (\$)
Airtac Trading (Hong Kong) Limited	203,280	868,888	10,813	858,075	-	(75)	110,184	Note 1
Airtac Industrial (Hong Kong) Limited	2,069,680	5,391,287	145,740	5,245,547	-	(827)	1,106,625	Note 1
Instant Reach International Limited	256,714	421,683	4,292	417,391	-	(1)	4,100	Note 1
Jianliang (Shanghai) Trading Co.	203,280	930,046	449,271	480,775	1,660,083	124,922	120,885	Note 1
Ningbo AirTAC Automatic Industrial Co.	929,280	4,578,724	1,606,151	2,972,573	2,965,876	699,213	595,912	Note 1
Guangdong AirTAC Automatic Industrial Co.	174,240	1,409,543	208,945	1,200,598	1,130,280	299,921	224,549	Note 1
ATC (ITALIA) S.R.L.	115,470	158,204	103,837	54,367	102,935	(25,424)	(18,598)	Note 1
AirTAC Industrial Co.	230,000	866,204	547,994	318,210	442,232	25,376	30,116	1.31
AirTAC (China) Co.	970,080	2,769,026	1,393,669	1,375,357	4,457,884	535,048	404,658	Note 1
Airtac Holding (Singapore) Pte. Ltd	290,400	280,259	124	280,135	-	(2,146)	(28,145)	Note 1
Airtac International (Singapore) Pte. Ltd	275,880	424,520	156,901	267,619	10,705	(27,797)	(25,984)	Note 1

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

Note 2: The amounts were converted to TWD based on exchange rate on 2012.12.31.

8.1.6 Consolidated financial statements of affiliates: See Appendix 1.

8.1.7 Affiliation report: None.

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

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

8.4 Other necessary supplemental information: None.

8.5 Any event that has material influence on stockholders' equity or stock price as provided in Subparagraph 2, Paragraph 2, Article 36 of the Securities and Exchange Act in the most recent year and up to the date of annual report: None.

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders

AirTAC International Group

We have audited the accompanying consolidated balance sheets of AirTAC International Group (the "Company") and subsidiaries as of December 31, 2012 and December 31, 2011, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated 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 the Audit of Financial Statements by Certified Public Accountants* and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

March 5, 2013

Deloitte and Touche

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(In Thousands of Chinese Yuan and New Taiwan Dollars, Except Par Value)

Code	Assets	2012			2011		
		RMB	NTD	%	RMB	NTD	%
	Current assets						
1100	Cash (Note 4)	\$ 184,936	\$ 861,802	8	\$ 262,772	\$ 1,263,145	15
1310	Financial assets at fair value through profit or loss (Notes 2, 5, and 20)	48,082	224,062	2	41,266	198,366	2
1140	Notes receivable and Accounts receivable, net (Notes 2, 3, 6, and 21)	334,570	1,559,097	15	288,498	1,386,810	16
1178	Other receivables	13,099	61,041	1	9,928	47,724	1
120X	Inventories (Notes 2 and 7)	231,528	1,078,920	11	205,191	986,353	11
1286	Deferred income tax assets – current (Notes 2 and 16)	14,661	68,320	1	11,020	52,973	1
1298	Other current assets	16,219	75,580	1	17,104	82,219	1
11XX	Total current assets	843,095	3,928,822	39	835,779	4,017,590	47
1421	Investments						
	Long-term investments at equity (Notes 2 and 8)	61,532	286,739	3	-	-	-
	Property, plant and equipment (Notes 2,9, and 22)						
	Cost						
1501	Land	34,327	159,957	1	33,271	159,957	2
1521	Buildings	668,164	3,113,642	31	487,725	2,344,496	27
1531	Machinery and equipment	418,548	1,950,433	19	301,551	1,449,557	17
1551	Transportation equipment	42,074	196,064	2	41,111	197,618	2
1561	Office equipment and other	86,420	402,716	4	70,947	341,044	4
15X1	Total cost	1,249,533	5,822,812	57	934,605	4,492,672	52
15X9	Less: Accumulated depreciation	(266,884)	(1,243,679)	(12)	(221,112)	(1,062,884)	(12)
		982,649	4,579,133	45	713,493	3,429,788	40
1670	Construction in progress and prepayments for equipment	225,182	1,049,348	10	177,425	852,882	10
15XX	Total property, plant and equipment	1,207,813	5,628,481	55	890,918	4,282,670	50
	Intangible assets (Notes 2,10, 17, and 22)						
1750	Computer software	5,633	26,251	-	4,270	20,526	-
1760	Goodwill	4,370	20,365	-	4,370	21,007	-
1770	Deferred pension cost	1,645	7,665	-	1,808	8,691	-
1782	Land access	27,865	129,851	2	28,505	137,025	2
17XX	Total intangible assets	39,513	184,132	2	38,953	187,249	2
	Other assets						
1830	Deferred charges (Notes 2 and 11)	20,781	96,841	1	11,336	54,490	1
1860	Deferred income tax assets – noncurrent (Notes 2 and 16)	5,474	25,509	-	3,798	18,257	-
1880	Other Assets	271	1,264	-	258	1,243	-
18XX	Total other assets	26,526	123,614	1	15,392	73,990	1
1XXX	Total	\$ 2,178,497	\$ 10,151,788	100	\$ 1,781,042	\$ 8,561,499	100

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

		2012			2011		
Code		RMB	NTD	%	RMB	NTD	%
4110	Operating revenue (Notes 2 and 11)	\$ 1,216,714	\$ 5,669,887	100	\$ 1,173,561	\$ 5,641,310	100
4170	Less : Sales returns and allowances (note 2)	(408)	(1,900)	-	(625)	(3,006)	-
4100	Net sales	1,216,306	5,667,987	100	1,172,936	5,638,304	100
5000	Operating costs (Notes 7 and 18)	(579,425)	(2,700,122)	(48)	(565,610)	(2,718,885)	(48)
5910	Gross profit	636,881	2,967,865	52	607,326	2,919,419	52
	Operating expenses (Note 18)						
6100	Selling expenses	(177,810)	(828,596)	(14)	(123,716)	(594,702)	(10)
6200	General and administrative expenses	(95,441)	(444,752)	(8)	(88,789)	(426,807)	(8)
6300	Research and development expenses	(38,309)	(178,520)	(3)	(23,756)	(114,194)	(2)
6000	Total operating expenses	(311,560)	(1,451,868)	(25)	(236,261)	(1,135,703)	(20)
6900	Operating income	325,321	1,515,997	27	371,065	1,783,716	32
	Non-operating income and gains						
7110	Interest income	1,897	8,840	-	1,031	4,956	-
7160	Exchange gain, net (Note 2)	4,141	19,296	-	7,633	36,694	1
7310	Valuation gain on financial assets, net (Notes 2 and 5)	2,180	10,160	-	786	3,776	-
7480	Miscellaneous income	7,599	35,407	1	4,727	22,722	-
7100	Total non-operating income and gains	15,817	73,703	1	14,177	68,148	1
	Non-operating expenses and losses						
7510	Interest expense	(9,333)	(43,490)	(1)	(5,589)	(26,869)	(1)
7521	Investment loss recognized under equity method (Note 8)	(11)	(50)	-	-	-	-
7880	Miscellaneous expenses	(1,742)	(8,116)	-	(1,910)	(9,182)	-
7500	Total non-operating expenses and losses	(11,086)	(51,656)	(1)	(7,499)	(36,051)	(1)
7900	Income before income tax	330,052	1,538,044	27	377,743	1,815,813	32
8110	Income tax expense (Notes 2 and 16)	(90,183)	(420,253)	(7)	(91,335)	(439,045)	(8)
9600	Consolidated net income	\$ 239,869	\$ 1,117,791	20	\$ 286,408	\$ 1,376,768	24
	Attributed to						
9601	Shareholders of the parent	\$ 236,889	\$ 1,103,905	20	\$ 280,871	\$ 1,350,146	24
9602	Minority interests	2,980	13,886	-	5,537	26,622	-
		\$ 239,869	\$ 1,117,791	20	\$ 286,408	\$ 1,376,768	24
		Before Income Tax	After Income Tax		Before Income Tax	After Income Tax	
Code		RMB	NTD	RMB	NTD	RMB	NTD
	Earnings per share (Note 19)						
9750	Basic	\$ 2.18	\$10.14	\$ 1.58	\$ 7.36	\$ 2.47	\$11.88
9850	Diluted	\$ 2.17	\$10.13	\$ 1.58	\$ 7.35	\$ 2.47	\$11.86

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011
(In Thousands of Chinese Yuan and New Taiwan Dollars)

	Common stock		Capital surplus		Retained Earnings		Cumulative translation adjustments		Net loss of the cost		Minority Interest		Total shareholders' equity	
	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD	RMB	NTD
BALANCE, JANUARY 1, 2011	\$ 315,759	\$1,500,000	\$ 448,529	\$1,991,694	\$ 235,643	\$1,046,373	(\$ 6,569)	(\$127,043)	\$ -	\$ -	\$ 27,490	\$ 122,071	\$1,020,852	\$4,533,095
Appropriation of earnings														
Cash dividends for the year 2010	-	-	-	-	(150,000)	(721,050)	-	-			-	-	(150,000)	(721,050)
Net income for the year ended December 31, 2011	-	-	-	-	280,871	1,350,146	-	-			5,537	26,622	286,408	1,376,768
Change in translation adjustments	-	-	-	164,386	-	86,363	(7,878)	75,476	-	-	(2,376)	(1,355)	(10,254)	324,870
BALANCE, DECEMBER 31, 2011	315,759	1,500,000	448,529	2,156,080	366,514	1,761,832	(14,447)	(51,567)	-	-	30,651	147,338	1,147,006	5,513,683
Appropriation of earnings														
Cash dividends for the year 2011	-	-	-	-	(169,500)	(795,000)	-	-			-	-	(169,500)	(795,000)
Net income for the year ended December 31, 2012	-	-	-	-	236,889	1,103,905	-	-	-	-	2,980	13,886	239,869	1,117,791
Change in minority interest	-	-	-	-	-	-	-	-			(2,947)	(13,857)	(2,947)	(13,857)
Change in translation adjustments	-	-	-	(65,934)	-	(48,747)	4,339	(24,102)			964	113	5,303	(138,670)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	(611)	(2,849)	-	-	(611)	(2,849)
BALANCE, DECEMBER 31, 2012	<u>\$ 315,759</u>	<u>\$1,500,000</u>	<u>\$ 448,529</u>	<u>\$2,090,146</u>	<u>\$ 433,903</u>	<u>\$2,021,990</u>	<u>(\$ 10,108)</u>	<u>(\$ 75,669)</u>	<u>(\$ 611)</u>	<u>(\$ 2,849)</u>	<u>\$ 31,648</u>	<u>\$ 147,480</u>	<u>\$1,219,120</u>	<u>\$5,681,098</u>

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of Chinese Yuan and New Taiwan Dollars)

	2012		2011	
	RMB	NTD	RMB	NTD
Cash flows from operating activities				
Net income	\$ 239,869	\$ 1,117,791	\$ 286,408	\$ 1,376,768
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	61,250	285,425	49,886	239,805
Amortization	9,608	44,777	5,653	27,177
Provision for doubtful accounts	3,286	15,312	2,782	13,375
Recovery of loss on inventories	(436)	(2,030)	(179)	(858)
Investment loss recognized under the equity method	11	50	-	-
Loss on disposal of property, plant and equipment	1,383	6,444	1,265	6,081
Valuation gain on financial instruments	(2,180)	(10,160)	(786)	(3,776)
Deferred income tax	11,455	53,383	463	2,227
Accrued pension cost	(14,849)	(69,198)	(158)	(760)
Changes in operating assets and liabilities:				
Accounts receivable and Notes receivable	(48,476)	(225,898)	(65,838)	(316,483)
Other receivables	(3,171)	(14,777)	2,426	11,662
Inventory	(25,259)	(117,707)	(47,722)	(229,400)
Other current assets	885	4,124	(5,162)	(24,814)
Accounts payable and Notes payable	5,474	25,509	1,942	9,335
Income tax payable	(4,841)	(22,559)	5,189	24,944
Accrued expenses	5,371	25,029	(14,315)	(68,812)
Other current liabilities	(12,501)	(58,255)	7,844	37,706
Net cash provided by operating activities	<u>226,879</u>	<u>1,057,260</u>	<u>229,698</u>	<u>1,104,177</u>
Cash flows from investing activities				
Acquisition of financial assets designated as at fair value through profit or loss	(420,000)	(1,957,200)	(162,530)	(781,282)
Proceeds from disposal of financial assets designated at fair value through profit or loss	415,364	1,935,596	122,050	586,694
Acquisition of investments accounted for by equity method	(61,485)	(286,520)	-	-

(continued)

	2012		2011	
	RMB	NTD	RMB	NTD
Acquisition of property, plant and equipment	(\$ 367,670)	(\$1,713,342)	(\$ 325,099)	(\$ 1,562,751)
Proceeds from disposal of property, plant and equipment	5,670	26,422	1,975	9,494
Increase in Intangible assets and other assets	(19,780)	(92,175)	(22,926)	(110,205)
Net cash used in investing activities	(447,901)	(2,087,219)	(386,530)	(1,858,050)
Cash flows from financing activities				
Increase in short-term loans	309,190	1,440,825	206,533	992,804
Decrease in long-term loans	(8,732)	(40,691)	(97,662)	(469,461)
Increase in short-term bills payable	17,080	79,593	20,800	100,000
Cash dividends	(169,500)	(795,000)	(150,000)	(721,050)
Cash dividends of minority interest	(2,947)	(13,857)	-	-
Net cash provided by (used in) financing activities	145,091	670,870	(20,329)	(97,707)
Effect of exchange rate changes	(1,905)	(42,254)	8,728	199,959
Net decrease in cash and cash equivalents	(77,836)	(401,343)	(168,433)	(651,621)
Cash and cash equivalents, beginning of year	262,772	1,263,145	431,205	1,914,766
Cash and cash equivalents, end of year	<u>\$ 184,936</u>	<u>\$ 861,802</u>	<u>\$ 262,772</u>	<u>\$ 1,263,145</u>
Supplemental cash flow information				
Interest paid	<u>\$ 9,481</u>	<u>\$ 44,181</u>	<u>\$ 5,584</u>	<u>\$ 26,842</u>
Income tax paid	<u>\$ 83,642</u>	<u>\$ 389,772</u>	<u>\$ 72,832</u>	<u>\$ 350,103</u>
Non-cash investing and financing activities				
Current portion of long-term liabilities	<u>\$ 4,829</u>	<u>\$ 22,501</u>	<u>\$ 8,610</u>	<u>\$ 41,390</u>

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

AirTAC International Group and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2012 and 2011

(Amounts In Thousands of Chinese Yuan and New Taiwan Dollars, 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 shares have been listed on the Taiwan Stock Exchange (“TSE”) since December 2010.

As of December 31, 2012 and 2011, the Company and its subsidiaries had 3,302 and 2,948 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 the Republic of China (“ROC”). Significant accounting policies are summarized as follows:

(1) Basis of Preparing Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of Company, and the accounts of investees in which Company’s ownership percentage is less than 50% but over which Company has a controlling interest. 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, 2012 and 2011 was respectively RMB\$1=TWD 4.6600 and RMB\$1=TWD 4.8070.

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

On the basis of consolidated financial statements as described above, subsidiaries included in the consolidated financial statements in 2012 and 2011 are as follows:

Name of investing company	Name of subsidiary	Ownership in 2012	Ownership in 2011
AirTAC International Group	AirTAC Trading (Hong Kong) Limited	100%	100%
	AirTAC Industrial (Hong Kong) Limited	100%	100%
	Instant Reach International Limited	100%	100%
	AIRTAC HOLDING (SINGAPORE) PTE.LTD.	100%	-
AirTAC Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	100%	100%
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	100%	100%
	Guangdong AirTAC Automatic Industrial Co.	100%	100%
	AirTAC (China) Co., Ltd.	100%	100%
Instant Reach International Limited	ATC (ITALIA) S.R.L	100%	100%
	AirTAC Industrial Co.	53.66%	53.66%
	AIRTAC INTERNATIONAL (SINGAPORE) PTE.LTD.	100%	100%-

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

(2) Foreign Currency Transactions

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

non-functional currencies are revalued at the prevailing exchange rates and the resulting gains or losses are recorded as current income or loss.

(3) Accounting Estimation

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

(4) Current/Noncurrent Assets and Liabilities

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

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

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

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are re-measured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently are recognized as income for the year. On recognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular

way purchases or sales of financial assets are recognized and derecognized on a trade (OR: Settlement) date basis.

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

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

(6) Impairment of Accounts Receivable

Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

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

Accounts receivable that are assessed not to be impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

(7) Impairment of Assets

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

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

(8) Allowances for Sales Returns and Others

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

(9) Inventories

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

(10) Investments Accounted for by the Equity Method

Investments in which the Company holds 20 percent or more of the investees’ voting shares or exercises significant influence over the investees’ operating and financial policy decisions are accounted for by the equity method.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of each of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent

assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee; however, if the Company has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity method investee are eliminated in proportion to the Company's percentage of ownership in the investee.

When the Company subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

(11) 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.

(12) 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 or 50 years; other intangible assets – 2 to 10 years.

(13) 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.

(14) Deferred Charges

Deferred charges are amortized over 2 to 10 years.

(15) 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.

(16) 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.

(17) Revenue Recognition

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

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

3. ACCOUNTING CHANGES AND EFFECTS

FINANCIAL INSTRUMENTS

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change does not produce significant effect on the Company and subsidiaries' consolidated net profit for the year ended December 31, 2011.

OPERATING SEGMENTS

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

4. CASH AND CASH EQUIVALENTS

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Cash on hand	\$ 641	\$ 2,987	\$ 714	\$ 3,434
Saving account	68,368	318,595	190,387	915,192
Time deposit	86,341	402,349	47,541	228,527
Foreign-currency deposits	<u>29,586</u>	<u>137,871</u>	<u>24,130</u>	<u>115,992</u>
	<u>\$ 184,936</u>	<u>\$ 861,802</u>	<u>\$ 262,772</u>	<u>\$1,263,145</u>

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Financial assets for the purpose of transaction	<u>\$ 48,082</u>	<u>\$ 224,062</u>	<u>\$ 41,266</u>	<u>\$ 198,366</u>

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

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Structured deposits	<u>\$ 48,082</u>	<u>\$224,062</u>	<u>\$ 41,266</u>	<u>\$ 198,366</u>

Outstanding structured deposits as of December 31, 2012 were as follows:

<u>Nature of financial instrument</u>	<u>Contract period</u>	Contract Amount		Fair Value	
		RMB	TWD	RMB	TWD
Structured deposits	2012.12.07~2013.01.10	\$10,000	\$46,600	\$10,030	\$46,740
Structured deposits	2012.12.19~2013.01.22	10,000	46,600	10,015	46,670
Structured deposits	2012.12.19~2013.01.22	11,000	51,260	11,017	51,339
Structured deposits	2012.12.19~2013.01.22	10,000	46,600	10,015	46,670
Structured deposits	2012.12.26~2013.02.28	<u>7,000</u>	<u>32,620</u>	<u>7,005</u>	<u>32,643</u>
		<u>\$48,000</u>	<u>\$223,680</u>	<u>\$48,082</u>	<u>\$ 224,062</u>

Outstanding structured deposits as of December 31, 2011 were as follows:

<u>Nature of financial instrument</u>	<u>Contract period</u>	Contract Amount		Fair Value	
		RMB	TWD	RMB	TWD
Structured deposits	2011.10.12~2012.01.12	\$20,000	\$96,140	\$20,236	\$97,274

Structured deposits	2011.12.16~2012.02.06	5,000	24,035	5,013	24,097
Structured deposits	2011.12.21~2012.03.01	5,000	24,035	5,008	24,077
Structured deposits	2011.12.22~2012.01.30	5,000	24,035	5,006	24,063
Structured deposits	2011.12.28~2012.01.30	<u>6,000</u>	<u>28,842</u>	<u>6,003</u>	<u>28,855</u>
		<u>\$41,000</u>	<u>\$197,087</u>	<u>\$41,266</u>	<u>\$198,366</u>

For the year ended December 31 2012 and 2011, the net gains on financial assets held for trading were 2,180,000 RMB (NTD10,160,000) and 786,000 RMB (NTD3, 776,000), respectively.

6. NOTES AND ACCOUNTS RECEIVABLE-NET

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Notes and accounts receivable	\$ 343,954	\$1,602,826	\$ 294,582	\$1,416,056
Less: allowance for doubtful accounts	(9,384)	(43,729)	(6,048)	(29,246)
	<u>\$ 334,570</u>	<u>\$1,559,097</u>	<u>\$ 288,498</u>	<u>\$1,386,810</u>

Movements of the allowance for doubtful accounts were as follows:

	Year Ended December 31			
	2012		2011	
	RMB	TWD	RMB	TWD
Balance, beginning of year	\$ 6,084	\$ 29,246	\$ 3,341	\$ 14,836
Allowance for doubtful accounts	3,286	15,312	2,782	13,375
Written off	-	-	(4)	(17)
Effect of exchange rate changes	<u>14</u>	<u>(829)</u>	<u>(35)</u>	<u>1,052</u>
Balance, end of year	<u>\$ 9,387</u>	<u>\$ 43,729</u>	<u>\$ 6,084</u>	<u>\$ 29,246</u>

7. INVENTORIES- NET

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Raw materials	\$ 47,490	\$ 221,305	\$ 40,439	\$ 194,389
Work in progress	91,176	424,882	79,452	381,924
Finished goods	<u>92,862</u>	<u>432,733</u>	<u>85,300</u>	<u>410,040</u>
	<u>\$ 231,528</u>	<u>\$1,078,920</u>	<u>\$ 205,191</u>	<u>\$ 986,353</u>

As of December 31 2012 and 2011, the allowance for inventory devaluation was RMB 6,146,000 (TWD 28,640,000) and RMB 6,539,000 (TWD 31,432,000), respectively.

The cost of inventories recognized as costs of goods sold in 2012 and 2011 were RMB 579,425,000 (TWD 2,700,122,000) and RMB 565,610,000 (TWD 2,718,885,000), respectively, which included the reversal of write-downs of inventories in the amount of RMB 436,000 (TWD 2,030,000) and RMB 179,000 (TWD 858,000), respectively.

8. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	2012.12.31		% of Ownership
	RMB	TWD	
AMA TECH CORP.	<u>\$61,532</u>	<u>\$ 286,739</u>	20

Movements of the aforementioned difference allocated to goodwill for the year ended December 31, 2012:

<u>Cost</u>	RMB	TWD
Balance, beginning of year	\$ -	\$ -
Addition	20,085	93,596
Translation adjustment	-	-
Balance, end of year	<u>\$20,085</u>	<u>\$ 93,596</u>

The investment loss for the year 2012 recognized under the equity method was as follows:

	RMB	TWD
AMA TECH CORP.	<u>\$ 11</u>	<u>\$ 50</u>

The investment loss for the year ended December 31, 2012 was based on the investee's financial statements audited by the auditors for the same year.

9. PROPERTY, PLANT AND EQUIPMENTS – ACCUMULATED DEPRECIATION

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Buildings	\$ 74,813	\$ 348,628	\$ 60,819	\$ 292,356
Machinery and equipment	133,346	621,390	105,426	506,783
Transportation equipment	12,417	57,865	13,173	63,322
Office equipment and other	<u>46,308</u>	<u>215,796</u>	<u>41,694</u>	<u>200,423</u>
	<u>\$ 266,884</u>	<u>\$1,243,679</u>	<u>\$ 221,112</u>	<u>\$1,062,884</u>

Capitalized interest in 2011 was RMB 362,000 (TWD 1,740,000), at the capitalization rate of 6,108% (2012: Null).

The pledge (collateralization) of fixed assets as of December 31, 2012 and 2011 is detailed under Note 22.

10. INTANGIBLE ASSETS

	2012					
	Computer software		Goodwill		Land access	
	RMB	TWD	RMB	TWD	RMB	TWD
<u>Cost</u>						
Balance, beginning of year	\$ 9,427	\$ 45,316	\$ 4,370	\$ 21,007	\$ 29,854	\$ 143,511
Addition	2,670	12,443	-	-	-	-
Translation adjustment	35	(1,225)	-	(642)	-	(4,388)
Balance, end of year	<u>12,132</u>	<u>56,534</u>	<u>4,370</u>	<u>20,365</u>	<u>29,854</u>	<u>139,123</u>
	2012					
	Computer software		Goodwill		Land access	
	RMB	TWD	RMB	TWD	RMB	TWD
<u>Accumulated amortization</u>						
Balance, beginning of year	(5,157)	(24,790)	-	-	(1,349)	(6,486)
Amortization	(1,316)	(6,133)	-	-	(640)	(2,984)
Translation adjustment	(26)	640	-	-	-	198
Balance, end of year	<u>(6,499)</u>	<u>(30,283)</u>	<u>-</u>	<u>-</u>	<u>(1,989)</u>	<u>(9,272)</u>
Net book value, end of year	<u>\$ 5,633</u>	<u>\$ 26,251</u>	<u>\$ 4,370</u>	<u>\$ 20,365</u>	<u>\$ 27,865</u>	<u>\$ 129,851</u>
	2011					
	Computer software		Goodwill		Land access	
	RMB	TWD	RMB	TWD	RMB	TWD
<u>Cost</u>						
Balance, beginning of year	\$9,671	\$42,943	\$4,370	\$19,406	\$17,253	\$76,614
Addition	768	3,690	-	-	12,601	60,574
Decrease	(953)	(4,580)	-	-	-	-
Translation adjustment	(59)	3,263	-	1,601	-	6,323
Balance, end of year	<u>9,427</u>	<u>45,316</u>	<u>4,370</u>	<u>21,007</u>	<u>29,854</u>	<u>143,511</u>
<u>Accumulated amortization</u>						
Balance, beginning of year	(5,035)	(22,356)	-	-	(820)	(3,642)
Amortization	(1,088)	(5,230)	-	-	(529)	(2,545)
Decrease	953	4,580	-	-	-	-
Translation adjustment	13	(1,784)	-	-	-	(299)
Balance, end of year	<u>(5,157)</u>	<u>(24,790)</u>	<u>-</u>	<u>-</u>	<u>(1,349)</u>	<u>(6,486)</u>
Net book value, end of year	<u>\$ 4,270</u>	<u>\$ 20,526</u>	<u>\$ 4,370</u>	<u>\$ 21,007</u>	<u>\$ 28,505</u>	<u>\$ 137,025</u>

The pledge of land access as of December 31, 2011 is detailed under Note 22.

11. DEFERRED CHARGES

	2012		2011	
	RMB	TWD	RMB	TWD
<u>Cost</u>				
Balance, beginning of year	\$ 11,336	\$ 54,490	\$ 5,857	\$ 26,009
Increase in the year	17,097	79,677	9,515	45,737
Amortization	(7,652)	(35,660)	(4,036)	(19,402)
Translation adjustment	-	(1,666)	-	2,146
Balance, end of year	<u>\$ 20,781</u>	<u>\$ 96,841</u>	<u>\$ 11,336</u>	<u>\$ 54,490</u>

12. SHORT-TERM BANK LOANS

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Unsecured loans	\$ 654,831	\$3,051,510	\$ 339,328	\$1,631,145
Note-secured loans	-	-	8,320	40,000
	<u>\$ 654,831</u>	<u>\$3,051,510</u>	<u>\$ 347,648</u>	<u>\$1,671,145</u>

Annual interest rate on short-term bank loans ranged between 1.20%-1.50% in 2012 and ranged between 1.21%-2.79% in 2011.

The pledged (collateralized) loans of the Company and subsidiaries as of December 31, 2011 is detailed under Note 22.

13. SHORT-TERM NOTES AND BILLS PAYABLE

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Commercial paper payable	<u>\$ 38,628</u>	<u>\$ 180,000</u>	<u>\$ 20,800</u>	<u>\$ 100,000</u>

Annual interest rate in the end of 2012 and 2011 were respectively 0.72%~1.02% and 0.87%~1.10%.

14. LONG-TERM BANK LOANS

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Secured loan: Repay principal between November 2008 and August 2023 based on annuity method and pay interest on a monthly basis.	\$ 55,451	\$258,392	\$ 58,356	\$ 280,556
Secured loan: Due in June 2010 to September 2012, to be paid in full.	<u>-</u> 55,451	<u>-</u> 258,392	<u>4,000</u> 62,356	<u>19,228</u> 299,784
Less: Current portion of long-term loans	(<u>4,829</u>)	(<u>22,501</u>)	(<u>8,610</u>)	(<u>41,390</u>)
Total	<u>\$ 50,622</u>	<u>\$ 235,891</u>	<u>\$ 53,746</u>	<u>\$ 258,394</u>

Annual interest rate on long-term bank loans was 1.506% in 2012 and ranged 1.51%-6.98% in 2010.

The pledged (collateralized) loans of the Company and subsidiaries as of December 31 2012 and 2011 are detailed under Note 22.

15. STOCKHOLDERS' EQUITY

Originally the Company's registered capital and paid-in capital was both US\$20 million. Starting on April 17, 2010, the Company's paid-in capital of US\$20 million was converted into TWD 647,000,000 (in 64,700,000 shares with a par value of TWD 10 per share) at the exchange rate of 1:32.35. The Company held a general shareholders' meeting on June 29, 2010, in which, the shareholders approved a proposal to capitalize TWD 683,000,000 of capital surplus passed by the board of directors in its meeting on May 27, 2010. The capitalization resulted in the issue of 68,300,000 shares with a par value of TWD 10 per share). The board of directors also passed a proposal in its meeting on October 20, 2010 to make cash offering of 17,000,000 shares with a par value of TWD 10 per share. The Company's paid-in capital was 150,000,000 shares on December 31, 2012.

Appropriation of earnings and dividend policy

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

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

Based on the minimum percentage set out in the Company's Articles of Association, the cash bonus to employees for the years ended December 31, 2012 and 2011 was respectively estimated at RMB 4,384,000 (TWD 20,430,000) and RMB 8,314,000 (TWD 39,964,000).

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

The Company's board of directors' meeting held on March 14, 2012 made a proposal of the appropriation of earnings for 2011, and the Company's general shareholders' meeting held on June 14, 2012 resolved as follows:

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

The Company's board of directors' meeting held on March 11, 2011 made a proposal of the appropriation of earnings for 2010, and the Company's general shareholders' meeting held on June 9, 2011 resolved as follows:

	Surplus distribution (In thousands of RMB)	Dividend per share (RMB)
	<u>2010</u>	<u>2010</u>
Cash dividends	\$150,000	\$ 1

The bonus to employees for 2011 and 2010 approved in the shareholders' meetings on June 14, 2012 and June 9, 2011, respectively, were as follows:

	<u>2011</u>	<u>2010</u>
	Cash Dividends	Cash Dividends
	(In thousands of RMB)	(In thousands of RMB)
Bonus to employees	\$8,310	\$ 5,440

	<u>2011</u>	<u>2010</u>
	Cash Dividends	Cash Dividends
	(In thousands of RMB)	(In thousands of RMB)
Amounts approved in shareholders' meetings	\$8,310	\$ 5,440
Amounts recognized in respective financial statements	8,314	4,516

The differences between the approved amounts of the bonus to employees and the accrual amounts reflected in the financial statements for the years ended December 31, 2011 and 2010 were primarily due to changes in estimates had been adjusted in profit and loss for the years ended December 31, 2012 and 2011, respectively.

The Company's board of directors' meeting held on March 5, 2013 passed the appropriations of earnings for the year 2012. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends per share
	<u>(In thousands of RMB)</u>	<u>(RMB)</u>
	<u>2012</u>	<u>2012</u>
Special reserve	\$10,719	\$ -
Cash dividends	120,000	0.8
Stock dividends	22,200	0.148

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 Market Observation Post System website of the Taiwan Stock Exchange.

16. 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

<u>Name of subsidiary</u>	<u>2012</u>	<u>2011</u>
AirTAC Industrial Co.	17%	17%
Jianliang (Shanghai) Trading Co., Ltd.	24%-25%	24-25%
Ningbo AirTAC Automatic Industrial Co.	15%	15%
Guangdong AirTAC Automatic Industrial Co.	25%	12.5%
AirTAC (China) Co., Ltd.	25%	25%
AirTAC Industrial (Hong Kong) Limited	16.5%	16.5%
AirTAC Trading (Hong Kong) Limited	16.5%	16.5%
ATC (Italia) S.R.L.	27.5%	27.5%
AIRTAC HOLDING (SINGAPORE) PTE. LTD.	17%	17%
AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	17%	17%

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

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., AIRTAC HOLDING (SINGAPORE) PTE. LTD., and AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD. reported accumulated loss as of December 31, 2012, hence were not subject to income tax.

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

a. Reconciliation of income tax payable:

	2012		2011	
	RMB	TWD	RMB	TWD
Income tax due to statutory tax rate	\$ 77,341	\$ 360,409	\$ 93,660	\$ 450,223
Tax effects of adjusted items				
Permanent difference	1,141	5,314	(1,215)	(5,743)
Temporary difference	1,828	8,519	(751)	(3,611)
R&D tax credit	(2,320)	(10,812)	(1,531)	(7,360)
Investment tax credits used	-	-	(11)	(48)
Loss carryforwards used	(568)	(2,649)	-	-
Additional 10% income tax on unappropriated earnings	410	1,912	445	2,034
Income tax payable	<u>\$ 77,832</u>	<u>\$ 362,693</u>	<u>\$ 90,597</u>	<u>\$ 435,495</u>

b. Income tax expenses were as follows:

	2012		2011	
	RMB	TWD	RMB	TWD
Income tax payable	\$ 77,832	\$ 362,693	\$ 90,597	\$ 435,495
Deferred income tax expense	11,455	53,383	463	2,227
Adjustment for prior years' income tax	896	4,177	275	1,323
	<u>\$ 90,183</u>	<u>\$ 420,253</u>	<u>\$ 91,335</u>	<u>\$ 439,045</u>

c. Deferred income tax assets were as follows:

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Current				
loss on market price decline and obsolete and slow-moving inventories	\$ 983	\$ 4,579	\$ 1,131	\$ 5,438
Allowance for doubtful accounts	2,161	10,069	1,314	6,314
Unrealized sales profit margin	7,046	32,834	5,152	24,767
Others	<u>4,471</u>	<u>20,838</u>	<u>3,423</u>	<u>16,454</u>
	<u>\$ 14,661</u>	<u>\$ 68,320</u>	<u>\$ 11,020</u>	<u>\$ 52,973</u>
Non-current				
Excess provisions for pension cost	\$ 648	\$ 3,022	\$ 534	\$ 2,565

Loss carry forwards	4,796	22,350	3,264	15,692
Others	<u>30</u>	<u>137</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,474</u>	<u>\$ 25,509</u>	<u>\$ 3,798</u>	<u>\$ 18,257</u>

d. Deferred income tax liabilities comprise the following:

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Non-current Tax withholding for dividends to be remitted out	<u>\$ 31,989</u>	<u>\$ 149,070</u>	<u>\$ 28,913</u>	<u>\$ 138,986</u>

- (3) The Company and subsidiary Instant Reach International Limited are exempted from income tax. The income tax returns of AirTAC Industrial Co. and ATC (ITALIA) S.R.L. have been respectively examined and cleared by the ROC tax authority and Italian taxing authority through 2010 and 2008. The other subsidiaries have also filed business income tax returns by the deadlines set by the local governments.

17. 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 2012 and 2011 was RMB1,027,000 (TWD 4,786,000) and RMB744,000 (TWD 3,575,000), respectively.

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

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

The Company, Instant Reach International Limited, AirTAC Trading (Hong Kong) Limited, AIRTAC HOLDING (SINGAPORE) PTE. LTD., AirTAC Industrial (Hong Kong) Limited, ATC (ITALIA) S.R.L., AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD., and AirTAC (China) Co., Ltd. do not have employee retirement plan.

Pension related information under the defined benefit plan:

Net pension cost comprises the following:

	2012		2011	
	RMB	TWD	RMB	TWD
Service cost	\$ 739	\$ 3,441	\$ 2,888	\$ 13,883
Interest cost	323	1,503	483	2,321
Amortization	389	1,815	(1,301)	(6,253)
Expected return on plan assets	(51)	(237)	(53)	(257)
	<u>\$ 1,400</u>	<u>\$ 6,522</u>	<u>\$ 2,017</u>	<u>\$ 9,694</u>

Allocation of pension and adjustment of accrued pension liabilities:

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Benefit obligation				
Vested	\$ 701	\$ 3,265	\$ 5,444	\$ 26,168
Non-vested	<u>8,868</u>	<u>41,323</u>	<u>8,476</u>	<u>40,745</u>
Accumulated benefit obligation	9,569	44,588	13,920	66,913
Additional benefits based on future salaries	<u>6,292</u>	<u>29,321</u>	<u>6,926</u>	<u>33,294</u>
Projected benefit obligation	15,861	73,909	20,846	100,207
Fair value of plan assets	(2,664)	(12,415)	(2,398)	(11,529)
Funded status	13,197	61,494	18,448	88,678
Unrecognized net transitional obligation	(3,010)	(14,024)	(8,408)	(40,417)
Unamortized actuarial losses	(5,539)	(25,811)	9,457	45,463
Additional accrued pension cost liabilities	<u>2,256</u>	<u>10,514</u>	<u>1,808</u>	<u>8,691</u>
Accrued pension cost liabilities	<u>\$ 6,904</u>	<u>\$ 32,173</u>	<u>\$ 21,305</u>	<u>\$ 102,415</u>
Vested obligation under defined benefit plan	<u>\$ 1,598</u>	<u>\$ 7,446</u>	<u>\$ 12,575</u>	<u>\$ 60,448</u>

Assumptions for pension benefit obligations:

	2012.12.31	2011.12.31
Discount rate	1.75%-3.75%	2.00%-3.75%
Future salary increase rate	3.50%-5.00%	3.50%-5.00%
Expected return on plan assets	2.00%	2.00%

18. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

	2012					
	Operating costs		Operating expenses		Total	
	RMB	TWD	RMB	TWD	RMB	TWD
Personnel expense						
Salaries	\$118,226	\$ 550,935	\$ 139,869	\$ 651,789	\$ 258,095	\$1,202,724
Pension costs	6,266	29,199	7,728	36,012	13,994	65,211
Others	<u>9,650</u>	<u>44,969</u>	<u>26,032</u>	<u>121,307</u>	<u>35,682</u>	<u>166,276</u>
Total	<u>\$ 134,142</u>	<u>\$ 625,103</u>	<u>\$ 173,629</u>	<u>\$ 809,108</u>	<u>\$ 307,771</u>	<u>\$ 1,434,211</u>
Depreciation expense	<u>\$ 37,424</u>	<u>\$ 174,397</u>	<u>\$ 23,826</u>	<u>\$ 111,028</u>	<u>\$ 61,250</u>	<u>\$ 285,425</u>

Amortization expense	\$ 3,024	\$ 14,094	\$ 6,584	\$ 30,683	\$ 9,608	\$ 44,777
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	2011					
	Operating costs		Operating expenses		Total	
	RMB	TWD	RMB	TWD	RMB	TWD
Personnel expense						
Salaries	\$109,380	\$525,788	\$104,777	\$503,661	\$214,157	\$1,029,449
Pension costs	3,127	15,033	6,238	29,988	9,365	45,021
Others	15,216	73,145	16,758	80,553	31,974	153,698
Total	<u>\$ 127,723</u>	<u>\$ 613,966</u>	<u>\$ 127,773</u>	<u>\$ 614,202</u>	<u>\$ 255,496</u>	<u>\$ 1,228,168</u>
Depreciation expense	<u>\$ 32,616</u>	<u>\$ 156,786</u>	<u>\$ 17,270</u>	<u>\$ 83,019</u>	<u>\$ 49,886</u>	<u>\$ 239,805</u>
Amortization expense	<u>\$ 2,966</u>	<u>\$ 14,258</u>	<u>\$ 2,687</u>	<u>\$ 12,919</u>	<u>\$ 5,653</u>	<u>\$ 27,177</u>

19. EARNINGS PER SHARE

Data used in calculating earnings per share:

2012									
Amount (numerator)					Number of shares (denominator) (1,000 shares)	Earnings per share (\$)			
Before tax		After tax		Before tax		After tax			
RMB	TWD	RMB	TWD	RMB		TWD	RMB	TWD	
Basic EPS									
Consolidated net income attributed to parent company's shareholders	\$ 326,353	\$ 1,520,807	\$ 236,889	\$ 1,103,905	150,000	<u>\$ 2.18</u>	<u>\$ 10.14</u>	<u>\$ 1.58</u>	<u>\$ 7.36</u>
Dilutive effect of common stock equivalent									
Employee bonus	-	-	-	-	122				
Diluted EPS	<u>\$ 326,353</u>	<u>\$ 1,520,585</u>	<u>\$ 236,889</u>	<u>\$ 1,103,905</u>	<u>150,122</u>	<u>\$ 2.17</u>	<u>\$ 10.13</u>	<u>\$ 1.58</u>	<u>\$ 7.35</u>
2011									
Amount (numerator)					Number of shares (denominator) (1,000 shares)	Earnings per share (\$)			
Before tax		After tax		Before tax		After tax			
RMB	TWD	RMB	TWD	RMB		TWD	RMB	TWD	
Basic EPS									
Consolidated net income attributed to parent company's shareholders	\$ 370,831	\$ 1,782,585	\$ 280,871	\$ 1,350,146	150,000	<u>\$ 2.47</u>	<u>\$ 11.88</u>	<u>\$ 1.87</u>	<u>\$ 9.00</u>
Dilutive effect of common stock equivalent									
Employee bonus	-	-	-	-	318				
Diluted EPS	<u>\$ 370,831</u>	<u>\$ 1,782,585</u>	<u>\$ 234,167</u>	<u>\$ 1,350,146</u>	<u>150,318</u>	<u>\$ 2.47</u>	<u>\$ 11.86</u>	<u>\$ 1.87</u>	<u>\$ 8.98</u>

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be

included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

20. FINANCIAL INSTRUMENTS

(1) Fair values of financial instruments:

Non-derivative instrument	2012.12.31				2011.12.31			
	Carrying value		Fair value		Carrying value		Fair value	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Liabilities								
Long-term bank loans (including current portion)	\$ 55,451	\$258,392	\$ 55,451	\$258,392	\$ 62,356	\$299,784	\$62,356	\$299,784
Derivative instrument								
Assets								
Financial assets at fair value through profit or loss	48,082	224,062	48,082	224,062	41,266	198,366	41,266	198,366

(2) The Company and subsidiaries use following methods and assumptions to estimate the fair values:

- a. The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash, receivables, payables, short-term bank loans, short-term bills payable, notes payable and accounts payable.
- b. Fair values of financial instruments designated as at FVTPL are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.
- c. Fair value of long-term loans is estimated using the present value of future cash flows discounted by the interest rates the Company may obtain for similar loans (e.g., similar maturities).

(3) The Company and subsidiaries recognized the current profit was RMB 2,180,000 (TWD 10,160,000) and 786,000 (TWD 3,776,000) respectively in 2012 and 2011, according to the re-measurement and change of the fair values in the market.

(4) Financial risks

- a. Market risk

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

b. Credit risk

The Company and subsidiaries are under the potential influence of counterparties or other parties involved in the trading of financial assets failing to the contract. Those influences include the concentration and composition of credit risk associated with the financial instruments traded by the Company and subsidiaries, contract amounts, and other receivables. As of year-end 2012 and 2011, the Company and subsidiaries held financial assets with credit risk (including mainly notes receivable, accounts receivable and other receivable) in the amount of RMB347,669,000 (TWD1,620,138,000) and RMB298,426,000 (TWD1,434,534,00) (mainly including notes receivable, accounts receivable, and other receivables), respectively. The maximum credit exposures of those financial instruments are the same as their carrying values. In addition, parties that the Company and subsidiaries do trade with are companies with good credit standing, and are not expected to cause significant credit risk.

c. Liquidity risk

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

d. Cash flow risk due to interest rate change

The Company and subsidiaries' financial assets exposed to fair value risk due to interest rate change as of year-end 2012 and 2011 were respectively RMB86,341,000 (TWD402,349,000) and RMB47,541,000 (TWD228,527,000), and financial liabilities exposed to the same risk were respectively RMB46,106,000 (TWD214,847,000) and RMB20,800,000 (TWD100,000,000). As of year-end 2012 and 2011, financial assets exposed to cash flow risk due to interest rate change amounted to RMB 97,954,000 (TWD 456,466,000) and RMB214,517,000 (TWD 1,031,184,000), respectively, and financial liabilities exposed to the same risk amounted to RMB 702,804,000 (TWD 3,275,055,000) and RMB410,004,000 (TWD1,970,929,000), respectively.

21. RELATED PARTY TRANSACTION

(1) Related parties and their relationships with the Company

Related Party	Relationships with the Company
Ningbo Comfort Health Equipment Co., Ltd.	The company's responsible person is a director of the Company.

(2) Significant transactions with related parties

a. Sales

	2012			2011		
	Amount			Amount		
	RMB	TWD		RMB	TWD	
Ningbo Comfort Health Equipment Co., Ltd.	\$ 937	\$ 4,366	-	\$ 1,441	\$ 6,926	-

b. Receivables

	2012			2011		
	Amount			Amount		
	RMB	TWD		RMB	TWD	
Kunming AirTAC Automated Engineering Co., Ltd.	\$ 407	\$ 1,897	-	\$ 60	\$ 289	-

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

	2012		2011	
	RMB	TWD	RMB	TWD
Salary	\$12,066	\$56,230	\$10,646	\$51,175
Reward and special allowance	784	3,652	2,389	11,483
Bonus	4,938	23,011	6,460	31,053
	<u>\$17,788</u>	<u>\$82,893</u>	<u>\$19,495</u>	<u>\$93,711</u>

22. PLEDGED ASSETS

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

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Land	\$ 34,327	\$ 159,957	\$ 33,271	\$ 159,957
Building	60,130	280,198	100,281	482,052
Land access	-	-	5,157	24,791
	<u>\$ 94,457</u>	<u>\$ 440,155</u>	<u>\$ 138,709</u>	<u>\$ 666,800</u>

23. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) As of year-end 2012, non-cancellable operating leases and contracts entered by the Company and subsidiaries are as follows:

	2012.12.31	
	RMB	TWD
Minimum rent payable under non-cancellable lease		
First year after date of balance sheet	\$ 4,921	\$ 22,932
Second year after date of balance sheet	2,509	11,692
Years thereafter	<u>5,643</u>	<u>26,296</u>
	<u>\$ 13,073</u>	<u>\$ 60,920</u>

- (2) As of year-end 2012, the Company and subsidiaries had commitments in the amount of RMB 138,687,000 (TWD 646,281,000) in relation to purchase of equipment and plant construction.

24. OPERATING SEGMENT FINANCIAL INFORMATION

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

Pneumatic components – Direct selling
- Distributors

(1) Segment revenues and results

	Segment Revenue				Segment Profit			
	2012		2011		2012		2011	
	RMB	TWD	RMB	TWD	RMB	TWD	RMB	TWD
Pneumatic components								
-Direct selling	\$ 899,744	\$ 4,192,809	\$ 824,036	\$ 3,961,140	\$ 311,252	\$ 1,450,435	\$ 322,792	\$ 1,551,661
-Distributors	<u>316,562</u>	<u>1,475,178</u>	<u>348,900</u>	<u>1,677,164</u>	<u>109,510</u>	<u>510,314</u>	<u>137,062</u>	<u>658,857</u>
Total amount	<u>\$ 1,216,306</u>	<u>\$ 5,667,987</u>	<u>\$ 1,172,936</u>	<u>\$ 5,638,304</u>	420,762	1,960,749	459,854	2,210,518
Investment loss recognized under the equity method					(11)	(50)	-	-
Interest income					1,897	8,840	1,031	4,956
Loss on disposal of property, plant and equipment					(1,383)	(6,444)	(1,265)	(6,081)
Exchange gain					4,141	19,296	7,633	36,694
Financial instrument evaluation profit					2,180	10,160	786	3,776
Central administration costs and directors' compensation					(88,201)	(411,017)	(84,707)	(407,181)
Interest expense					<u>(9,333)</u>	<u>(43,490)</u>	<u>(5,589)</u>	<u>(26,869)</u>
Net income before tax of continuing operations					<u>\$ 330,052</u>	<u>\$ 1,538,044</u>	<u>\$ 377,743</u>	<u>\$ 1,815,813</u>

The revenue reported above represents revenue from external customers. There were no inter-departmental sales in 2012 and 2011.

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

(2) Segment assets

	2012.12.31		2011.12.31	
	RMB	TWD	RMB	TWD
Department assets				
Pneumatic components				
-Direct Selling	\$ 1,611,511	\$ 7,509,633	\$ 1,241,868	\$ 5,969,690
-Distributors	<u>566,986</u>	<u>2,642,155</u>	<u>539,174</u>	<u>2,591,809</u>
Total amount of department assets	<u>\$ 2,178,497</u>	<u>\$10,151,788</u>	<u>\$ 1,781,042</u>	<u>\$ 8,561,499</u>

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

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

Unit: Foreign currency in thousands /RMB in thousands

	2012.12.31			2011.12.31		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
<u>Financial assets</u>						
<u>Currency</u>						
TWD	\$ 175,012	0.2146	\$ 37,541	\$ 193,959	0.2080	\$ 40,343
USD	4,530	6.2855	28,473	6,306	6.3000	39,736
Euro	1,247	8.2597	10,299	1,557	8.1500	12,692
SGD	628	5.0987	3,203	3,338	4.8492	16,187
<u>Financial liabilities</u>						
<u>Currency item</u>						
TWD	502,536	0.2146	107,816	374,994	0.2080	77,999
USD	103,992	6.2855	653,580	53,906	6.3000	339,593
SGD	487	5.0987	2,483	-	-	-

26. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

(2) The Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

1. The adjustment of items in the balance sheet on January 1, 2012

	Accounting principles generally accepted in the Republic of China (RMB)	Amount of impact (RMB)	IFRSs (RMB)	Explanation
<u>Assets</u>				
Deferred income tax assets-current	\$ 11,020	(\$ 11,020)	\$ -	5(1)
Office facilities and other equipments	70,947	11,336	82,283	5(3)
Deferred pension cost	1,808	(1,808)	-	5(2)
Land access	28,505	(28,505)	-	5(4)
Deferred charges	11,336	(11,336)	-	5(3)
Deferred income tax assets-non-current	3,798	11,020	14,818	5(1)
Long-term prepaid rent	-	28,505	28,505	5(4)
Construction in progress and prepayments for equipment	177,425	(30,539)	146,886	5(5)
Other prepayments-non-current	-	30,539	30,539	5(5)
<u>Liabilities</u>				
Accrued pension cost	21,305	(2,287)	19,018	4(2) 、5(2)
<u>Equity</u>				
Unappropriated earnings	366,514	(10,206)	356,308	4(2) 、4(3) 、5(2)
Cumulative translation adjustment	(14,447)	14,447	-	4(3)

Minority shareholding	30,651	(3,762)	26,889	4(2)
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	Accounting principles generally accepted in the Republic of China (RMB)	Amount of impact (RMB)	IFRSs (RMB)	Explanation
Assets				
Deferred income tax assets-current	\$ 52,973	(\$ 52,937)	\$ -	5(1)
Office facilities and other equipments	341,044	54,490	395,534	5(3)
Deferred pension cost	8,691	(8,691)	-	5(2)
Land access	137,025	(137,025)	-	5(4)
Deferred charges	54,490	(54,490)	-	5(3)
Deferred income tax assets-non-current	18,257	52,973	71,230	5(1)
Long-term prepaid rent	-	137,025	137,025	5(4)
Construction in progress and prepayments for equipment	852,882	(146,801)	706,081	5(5)
Other prepayments-non-current	-	146,801	146,801	5(5)
Liabilities				
Accrued pension cost	102,415	(10,994)	91,421	4(2) 、5(2)
Equity				
Capital surplus	2,156,082	(109,120)	2,045,960	5(6)
Unappropriated earnings	1,761,832	(96,237)	1,665,595	4(2) 、4(3) 、5(6)
Cumulative translation adjustment	(51,567)	225,747	174,180	4(3) 、5(6)
Minority shareholding	147,338	(18,087)	129,251	4(2) 、5(6)

2. The adjustment of items in the balance sheet on December 31, 2012

	Accounting principles generally accepted in the Republic of China (RMB)	Amount of impact (RMB)	IFRSs (RMB)	Explanation
Assets				
Deferred income tax assets-current	\$ 14,661	(\$ 14,661)	\$ -	5(1)
Office facilities and other equipments	86,420	20,781	107,201	5(3)
Deferred pension cost	1,645	(1,645)	-	5(2)
Land access	27,865	(27,865)	-	5(4)
Deferred charges	20,781	(20,781)	-	5(3)
Deferred income tax assets-non-current	5,474	14,661	20,135	5(1)
Long-term prepaid rent	-	27,865	27,865	5(4)
Construction in progress and prepayments for equipment	225,182	(32,671)	192,511	5(5)

Other prepayments-non-current	-	32,671	32,671	5(5)
(Continued)				
<u>Liabilities</u>				
Accrued pension cost	\$ 6,904	(\$ 3,124)	\$ 3,780	4(2)、5(2)
<u>Equity</u>				
Unappropriated earnings	433,903	(9,817)	424,086	4(2)、4(3)、5(2)
Cumulative translation adjustment	(10,108)	14,447	4,339	4(3)
Unrecognized net loss of pension cost	(611)	611	-	5(2)
Minority shareholding	31,648	(3,762)	27,886	4(2)

	Accounting principles generally accepted in the Republic of China	Amount of impact	IFRSs	Explanation
Assets	(RMB)	(RMB)	(RMB)	
Deferred income tax assets-current	\$ 68,320	(\$ 68,320)	\$ -	5(1)
Office facilities and other equipments	402,716	96,841	499,557	5(3)
Deferred pension cost	7,665	(7,665)	-	5(2)
Land use right	129,851	(129,851)	-	5(4)
Deferred expenses	96,841	(96,841)	-	5(3)
Deferred income tax assets-non-current	25,509	68,320	93,829	5(1)
Long-term prepaid rent	-	129,851	129,851	5(4)
Construction in progress and prepayments for equipment	1,049,348	(152,245)	897,103	5(5)
Other prepayments-non-current	-	152,245	152,245	5(5)
<u>Liabilities</u>				
Accrued pension cost	32,173	(14,559)	17,614	4(2)、5(2)
<u>Equity</u>				
Capital surplus	2,090,146	(43,186)	2,046,960	5(6)
Unappropriated earnings	2,021,990	(39,815)	1,982,175	4(2)、4(3)、5(6)
Cumulative translation adjustment	(75,669)	104,577	28,908	4(3)、5(6)
Unrecognized net loss of pension cost	(2,849)	2,849	-	5(2)
Minority shareholding	147,480	(17,531)	129,949	4(2)、5(6)

3. The adjustment of items comprehensive income statement in 2012

	Accounting principles generally accepted in the Republic of China	Amount of impact	IFRSs	Explanation
		(RMB)	(RMB)	

	(RMB)			
Operating income	\$ 1,216,306	\$ -	\$ 1,216,303	
Cost of sales	(579,425)	-	(579,425)	
(Continued)				
Expenses of sales	(\$ 311,560)	389	(\$ 311,171)	5(2)
Other gains and losses	4,731	-	4,731	
Income tax	(90,183)	-	(90,183)	
Consolidated net profit	239,869		240,258	
<u>Other consolidated gains and losses</u>				
Exchange differences arising from translation of the financial statements of foreign operations	4,339	-	4,339	4(3) 、5(6)

	Accounting principles generally accepted in the Republic of China (NTD)	Amount of impact (NTD)	IFRSs (NTD)	Explanation
Operating income	\$ 5,667,987	\$ 29,986	\$ 5,697,973	5(6)
Cost of sales	(2,700,122)	(14,238)	(2,714,360)	5(6)
Expenses of sales	(1,451,868)	(5,831)	(1,457,699)	5(6)
Other gains and losses	22,047	106	22,153	5(6)
Income tax	(420,253)	(2,275)	(422,528)	5(6)
Consolidated net profit	1,117,791		1,125,539	

<u>Other consolidated gains and losses</u>				
Exchange differences arising from translation of the financial statements of foreign operations	(24,102)	(121,170)	(145,272)	4(3) 、5(6)

4. The exemptions of IFRSs 1

‘First-time adoption of IFRS’ indicates an entity moving from national GAAP to IFRS should apply the requirements of IFRS 1. The joint ventures are supposed to establish the accounting policy per IFRSs and determine the balance sheet for the interim financial reporting period before the application of IFRSs (January 1, 2012) with the accounting policy. However, there are a number of optional exemption to the requirement for retrospective application. The exemptions applicable to the joint ventures are as follows :

(1) Deemed cost

The joint ventures evaluate the real estate, plants and equipments, investment properties, and intangible assets according to the IFRSs and retrospect the usage of relative regulations.

(2) Employee benefits

The joint ventures recognize all the unrecognized cumulative gains and losses concerning employee benefit plan as retained earnings at the date of transition to IFRSs.

(3) Cumulative translation differences

The joint venturea recognize the exchange differences arising from translation of the financial statements of foreign operations as zero and retained earnings at the date of transition to IFRSs.

5. The exemptions of IFRSs 1

(1) Deferred tax asset or liability

A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

The noncurrent asset reclassified from the deferred tax asset of the joint ventures in December 31, 2012 and January 1, 2012 were RMB 14,661,000 (TWD 68,320,000) and RMB 11,020,000 (TWD 52,973,000) respectively.

(2) Employee benefit-defined contribution retirement benefit plan

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Because of the IFRSs Article 19, the deferred pension of the joint ventures decreased RMB 1,645,000 (TWD 7,665,000) and RMB 1,808,000 (TWD 8,691,000) respectively in

December 31, 2012 and January 1, 2012. The accrued pension liability decreased RMB 3,124,000 (TWD 14,559,000) and RMB 2,287,000 (TWD 10,994,000) respectively. The net loss of unrecognized pension cost decreased RMB 611,000 (TWD 2,849,000) and RMB 0 (TWD 0) respectively. In addition, the pension cost for the year 2012 decreased RMB 389,000 (TWD 1,817,000).

The Company has prepared the above assessments in compliance with the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Statements Board continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in future may differ from those contemplated during the assessments.

26. ADDITIONAL DISCLOSURES

(1) Information on significant transactions:

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

(2) Information on investees:

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

(3) Information on Mainland China investment:

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

(4) Significant transactions between the parent company and subsidiaries: Table 9 and Table 10

AirTAC International Group and Subsidiaries
Loans to Others
2011

Table 1 Unit: \$1,000

No.	Lender	Borrower	Financial Statement Account	Highest Balance for the Period (Note 3)	Ending balance (Note 3)	Interest Rate (%)	Nature of Financing	Transaction Amount	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Maximum Amount of Loans to Single Borrower (Note 5)		Maximum Amount of Loans to Others Allowed for Lender (Note 5)	
											Item	Value	RMB	TWD	RMB	TWD
1	AirTAC International Group	ATC (Italia) S.R.L	Other receivables	EUR 2,000 (TWD 76,980) (Note 1)	EUR 2,000 (TWD 76,980) (Note 1)	-	Short-term financing needs	\$ -	Revolving fund	\$ -	-	-	\$474,898	\$ 2,213,447	\$474,898	\$ 2,213,447
2	AirTAC International Group	Ningbo AirTAC Automatic Industrial Co.	Other receivables	USD 49,000 RMB 65,000 (TWD 1,725,860) (Note 2)	USD 44,000 RMB 65,000 (TWD 1,580,660) (Note 2)	1.845% 3.00%	Short-term financing needs	-	Revolving fund	-	-	-	474,898	2,213,447	474,898	2,213,447
3	AirTAC International Group	AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Other receivables	USD 5,000 (TWD 145,200) (Note 3)	USD 5,000 (TWD 145,200) (Note 3)	-	Short-term financing needs	-	Revolving fund	-	-	-	474,898	2,213,447	474,898	2,213,447

Note 1: Amount actually drawn down in the period was EUR 1,500,000.
Note 2: Amount actually drawn down in the period was USD 33,100,000 and RMB 60,000,000.
Note 3: Amount actually drawn down in the period was USD 1,500,000.
Note 4: Conversion to TWD used the spot exchange rate on 2012.12.31, that is, 1USD=29.04TWD, 1EUR=38.49TWD.
Note 5: According to Company’s Loans to Others Procedure, the maximum loan to each borrower is 40% of the Company’s net worth at the end of period.

AirTAC International Group and Subsidiaries
Marketable Securities Held at End of Period
2012.12.31

Table 2

Unit: \$1,000

Holder	Type an Name of Security	Relationship with Issuer	Financial Statement Account	Shares	2012.12.31					Note
					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	\$ 1,127,629	\$ 5,254,751	100	\$ 1,127,629	\$ 5,254,751	Notes 2 & 3
	AirTAC Trading (Hong Kong) Limited	Subsidiary	Investments accounted for using equity method	7,000,000	184,385	859,234	100	184,385	859,234	Notes 2 & 3
	Instant Reach International Limited	Subsidiary	Investments accounted for using equity method	1	59,203	275,886	100	59,203	275,886	Notes 2 & 3
	AIRTAC HOLDING (SINGAPORE) PTE. LTD.	Subsidiary	Investments accounted for using equity method	10,000,000	60,115	280,136	100	60,115	280,136	Notes 2 & 3
	AMA Tech.	Equity-method investee	Investments accounted for using equity method	20,000,000	61,532	286,739	20	41,447	193,143	Notes 4
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	Subsidiary	Investments accounted for using equity method	(Note 1)	611,812	2,851,044	100	611,812	2,851,044	Notes 2 & 3
	Guangdong AirTAC Automatic Industrial Co.	Subsidiary	Investments accounted for using equity method	(Note 1)	245,950	1,146,127	100	245,950	1,146,127	Notes 2 & 3
	AirTAC (China) Co., Ltd.	Subsidiary	Investments accounted for using equity method	(Note 1)	295,139	1,375,348	100	295,139	1,375,348	Notes 2 & 3
AirTAC Trading (Hong Kong) Limited	Jianliang (Shanghai) Trading Co., Ltd.	Subsidiary	Investments accounted for using equity method	(Note 1)	103,171	480,777	100	103,171	480,777	Notes 2 & 3
Instant Reach International Limited	AirTAC Industrial Co.	Subsidiary	Investments accounted for using equity method	12,340,650	48,210	224,658	53.66	36,640	170,742	Notes 2, 3 & 4
	ATC (Italia) S.R.L	Subsidiary	Investments accounted for using equity method	3,000,000	8,960	41,754	100	8,960	41,754	Notes 2 & 3
AIRTAC HOLDING (SINGAPORE) PTE. LTD.	AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Subsidiary	Investments accounted for using equity method	9,500,000	57,429	267,619	100	57,429	267,619	Notes 2 & 3

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.

Note 4: The discrepancy between the carrying value of the marketable securities held at end of period and net value of investee at end of period is goodwill.

AirTAC International Group and Subsidiaries

Cumulative purchase or disposal of same marketable security exceeding TWD 100 million or 20% of paid-in capital

2012.12.31

Table 3

Unit: \$1,000

Purchaser (Seller)	Type and name of the security	Classification	Transaction Counter Party	Relationship	Beginning of year		Purchase		Sale				Other adjustments (Note 1)	End of period	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Price	Carrying cost	Disposal gains and losses		Number of shares	Amount
The Company	Stock	Investments accounted for by the equity method	AMA Tech	Equity-method investee	-	\$ -	20,000,000	RMB 61,485 (TWD 286,520)	-	\$ -	\$ -	\$ -	RMB 47 (TWD 219)	20,000,000	RMB 61,532 (TWD 286,739)

AirTAC International Group and Subsidiaries

Information of Investees

2012

Table 4

Unit: \$1,000

Investor Company	Investee Company	Location	Main Businesses	Original Investment		Balance as of December 31, 2011				Net Income (Loss) of Investee for the Period		Investee Gain (Loss) Recognized for the Period		Note
						Shares (Thousands)	Percentage of Ownership (%)	Carrying Amount						
				2012.12.31 (Note 1)	2011.12.31 (Note 1)			RMB	TWD	RMB	TWD	RMB	TWD	
AirTAC International Group	AirTAC Industrial (Hong Kong) Limited	Hong Kong	General investment	USD 61,000 RMB 64,000 (TWD 2,069,680)	USD 47,020 (TWD 1,365,461)	26,000,000	100	\$ 1,127,629	\$5,254,751	\$ 237,344	\$ 1,106,023	\$ 237,344	\$ 1,106,023	2
	AirTAC Trading (Hong Kong) Limited	Hong Kong	General investment	USD 7,000 (TWD 203,280)	USD 7,000 (TWD 203,280)	7,000,000	100	184,385	859,234	23,645	110,186	23,645	110,186	2
	Instant Reach International Limited	British Virgin Island	General investment	USD 8,840 (TWD 256,714)	USD 8,840 (TWD 256,714)	1	100	59,203	275,886	(2,100)	(9,786)	(2,100)	(9,786)	2
	AIRTAC HOLDING (SINGAPORE) PTE. LTD.	Singapore	General investment	USD 10,000 (TWD 290,400)	USD 10,000 (TWD 290,400)	10,000,000	100	60,115	280,136	(6,040)	(28,146)	(6,040)	(28,146)	2
	AMA Tech	Tucheng District, New Taipei City	Metal manufacturing	TWD 286,400	-	20,000,000	20	61,532	286,739	(54)	(251)	(11)	(50)	
AirTAC Industrial (Hong Kong) Limited	Ningbo AirTAC Automatic Industrial Co.	Jejiang China	Production of pneumatic control components and auxiliary components	USD 32,000 (TWD 929,280)	USD 32,000 (TWD 929,280)	-	100	611,812	2,851,044	127,878	595,911			
	Guangdong AirTAC Automatic Industrial Co.	Guangdong China	Production of pneumatic control components and auxiliary components	USD 6,000 (TWD 174,240)	USD 6,000 (TWD 174,240)	-	100	245,950	1,146,127	48,187	224,551			
	AirTAC (China) Co., Ltd.	Jejiang China	Wholesale, distribution and related business of pneumatic components, tools and equipments	USD 18,000 RMB 96,000 (TWD 970,080)	USD 9,000 (TWD 261,360)	-	100	295,139	1,375,348	86,837	404,660			
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 203,280)	USD 7,000 (TWD 203,280)	-	100	103,1710	480,777	25,941	120,885			
Instant Reach International Limited	AirTAC Industrial Co.	Tucheng District, New Taipei City	Processing, sales and import/export of machines and components	TWD 139,503	TWD 139,503	12,340,650	53.66	48,210	224,658	6,430	29,964			
	ATC (Italia) S.R.L	Via Mauro Macchi n.27, 20124 Milano (MI)	Production and sales of pneumatic and hydraulic control components	EUR 3,000 (TWD 115,470)	EUR 3,000 (TWD 115,470)	3,000,000	100	8,960	(3,991)	(1,632)	(18,598)			
AIRTAC HOLDING (SINGAPORE) PTE. LTD.	AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Singapore	Production and sales of pneumatic control components and auxiliary	USD 9,500 (TWD 275,880)	USD 9,500 (TWD 275,880)	9,500,000	100	57,429	267,619	(5,576)	(25,984)			

Note 1: Conversion to TWD used the spot exchange rate on 2012.12.31, that is, 1USD=29.04TWD, 1EUR=39.49TWD.

Note 2: Except AMA Tech, the write-off was done when the consolidated financial statement was formed.

AirTAC International Group and Subsidiaries
Acquisition of Real Estate Exceeding TWD 100 million or 20% of Paid-in Capital by Investees
2012

Table 5

Unit: \$1,000

Acquiring company	Title of property	Transaction date or occurrence date	Transaction amount		Payment	Counterparty	Relationship	Where the counterparty is a related party, the previous transfer information				Pricing reference and basis	Purpose of acquisition and use	Other agreements
			RMB	TWD				Owner	Relationship with issuer	Date of transfer	Amount			
Guangdong AirTAC Automatic Industrial Co.	Production plant	2012.12.31	\$ 66,986	\$ 312,155	N/A	Self-building	-	-	-	-	\$ -	N/A	As land for building company's production plant	
AirTAC (China) Co., Ltd.	Sales and Logistics Center	2012.12.31	64,565	300,873	N/A	Self-building	-	-	-	-		N/A	For company's sales management	
Ningbo AirTAC Automatic Industrial Co.	R&D Center	2012.12.31	44,455	207,158	N/A	Self-building	-	-	-	-		N/A	For company's research and development	
Ningbo AirTAC Automatic Industrial Co.	Employee dormitory	2012.12.31	26,980	125,725	N/A	Self-building	-	-	-	-		N/A	As land for building company's employee dormitory	
AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Production plant and administration building	2012.12.31	68,863	320,903	N/A	Self-building	-	-	-	-		N/A	As land for building company's production plant and sales management	

AirTAC International Group and Subsidiaries
Purchase/sale Transactions with Related Parties Exceeding TWD 100 Million or 20% of Paid-in Capital
2012

Table 6

Unit: \$1,000

Purchaser (Seller)	Counterparty	Relationship	Transaction					Non-arm’s Length Transaction and Reasons		Notes/Accounts Payable/ Receivable			Note
			Purchase (Sale)	Amount		% of Total	Payment Term			Balance		% to Total	
				RMB	TWD			RMB	TWD				
Ningbo AirTAC Automatic Industrial Co.	AirTAC (China) Co., Ltd.	Same ultimate parent company	Sale	\$ 468,060	\$2,181,160	74	T/T 120 days	-	-	\$ 114,921	\$ 535,532	68	
Ningbo AirTAC Automatic Industrial Co.	Guangdong AirTAC Automatic Industrial Co.	Same ultimate parent company	Sale	70,505	328,553	11	T/T 120 days	-	-	23,744	110,647	14	
Ningbo AirTAC Automatic Industrial Co.	AirTAC Industrial Co., Ltd.	Same ultimate parent company	Sale	26,924	125,465	4	T/T 120 days			3,292	15,341	2	
AirTAC (China) Co., Ltd.	Jianliang (Shanghai) Trading Co., Ltd.	Same ultimate parent company	Sale	183,115	853,316	19	T/T 120 days	-	-	4,127	19,232	2	
Jianliang (Shanghai) Trading Co., Ltd.	AirTAC (China) Co., Ltd.	Same ultimate parent company	Sale	79,597	370,922	22	T/T 120 days	-	-	60,336	281,166	70	
Guangdong AirTAC Automatic Industrial Co.	AirTAC (China) Co., Ltd.	Same ultimate parent company	Sale	185,799	865,823	77	T/T 120 days	-	-	69,558	324,140	72	

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
2012.12.31

Table 7

Unit: \$1,000

Receiving Company	Counterparty	Relationship	Ending Balance		Turnover rate (%)	Overdue Accounts Receivable		Recovered Amount		Allowance for Bad Debt
			RMB	TWD		Amount	Handling Method	RMB	TWD	
Ningbo AirTAC Automatic Industrial Co.	AirTAC (China) Co., Ltd.	Same ultimate parent company	\$ 114,921	\$ 535,532	8	\$ -	-	\$ 75,863	\$ 353,522	\$ -
Ningbo AirTAC Automatic Industrial Co.	Guangdong AirTAC Automatic Industrial Co.	Same ultimate parent company	23,744	110,647	5	-	-	7,960	37,094	-
Jianliang (Shanghai) Trading Co., Ltd.	AirTAC (China) Co., Ltd.	Same ultimate parent company	60,336	281,166	3	-	-	-	-	-
Guangdong AirTAC Automatic Industrial Co.	AirTAC (China) Co., Ltd.	Same ultimate parent company	69,558	324,140	5	-	-	21,881	101,965	-

AirTAC International Group and Subsidiaries
Investments in Mainland China
2012

Table 8 Unit: \$1,000

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital (Note 3)	Investment Type	Accumulated Investment Outflow from Taiwan as of 2012.01.01	Investment Flow for the Period		Accumulated Investment Outflow from Taiwan as of 2012.12.31	% 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 2012.12.31
					Outflow	Inflow			RMB	TWD	RMB	TWD	
Ningbo AirTAC Automatic Industrial Co.	Production of pneumatic control components and auxiliary components	USD 32,000 (TWD 929,280)	N/A	N/A	\$ -	\$ -	N/A	100	\$ 122,857 2.(1)	\$ 572,514	\$ 611,812	\$ 2,851,044	N/A
Guangdong AirTAC Automatic Industrial Co.	Production of pneumatic control components and auxiliary components	USD 6,000 (TWD 174,240)	N/A	N/A	-	-	N/A	100	39,194 2.(1)	182,644	245,950	1,146,127	N/A
AirTAC (China) Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 18,000 RMB 96,000 (TWD 970,080)	N/A	N/A	-	-	N/A	100	92,599 2.(1)	431,511	295,139	1,375,348	N/A
Jianliang (Shanghai) Trading Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 7,000 (TWD 203,280)	N/A	N/A	-	-	N/A	100	25,941 2.(1)	120,885	103,171	480,777	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 2012.12.31, that is, 1USD=29.04 TWD.

AirTAC International Group and Subsidiaries
Intercompany Relationships and Significant Transactions
2012

Table 9

Unit: \$1,000

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
1	Jianliang (Shanghai) Trading Co., Ltd.	Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	\$ 19,807	\$ 92,301	General terms and conditions	2%
		AirTAC (China) Co.	3	Costs of goods sold	183,115	853,316	General terms and conditions	15%
		AirTAC (China) Co.	3	Sales revenue	79,597	370,922	General terms and conditions	7%
		AirTAC (China) Co.	3	Disposal of property, plant, and equipment	16,704	77,841	General terms and conditions	1%
		AirTAC (China) Co.	3	Accounts receivable	60,336	281,166	General terms and conditions	3%
		AirTAC (China) Co.	3	Accounts payable	4,127	19,232	General terms and conditions	-
		AirTAC (China) Co.	3	Other receivable	6,203	28,906	General terms and conditions	-
2	Ningbo AirTAC Automatic Industrial Co., Ltd.	Hong Kong AirTAC Trading Co., Ltd.	2	Dividends payable	82,935	386,477	General terms and conditions	4%
		AirTAC International Group	2	Other payable	271,243	1,263,992	General terms and conditions	12%
		AirTAC International Group	2	Interest expense	5,638	26,273	General terms and conditions	-
		AirTAC (China) Co.	3	Accounts receivable	114,921	535,532	General terms and conditions	5%
		AirTAC (China) Co.	3	Sales revenue	468,060	2,181,160	General terms and conditions	38%
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	70,505	328,553	General terms and conditions	6%
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	14,331	66,782	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts receivable	23,744	110,647	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	3,151	14,684	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Sales revenue	26,924	125,465	General terms and conditions	2%
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	6,859	31,963	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Misc. revenue	4	19	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts receivable	3,292	15,341	General terms and conditions	-
		ATC (Italia) S.R.L.	3	Sales revenue	12,558	58,520	General terms and conditions	1%
		ATC (Italia) S.R.L.	3	Misc. revenue	213	993	General terms and conditions	-
		ATC (Italia) S.R.L.	3	Accounts receivable	6,231	29,036	General terms and conditions	-
		AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	3	Accounts receivable	6,168	28,743	General terms and conditions	-
		AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	3	Sales revenue	6,158	28,696	General terms and conditions	1%
		AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	3	Misc. revenue	54	252	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	\$ 14,327	\$ 66,764	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	70,505	328,553	General terms and conditions	6%
		Ningbo AirTAC Automatic Industrial Co.	3	Misc. income	4	18	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	3,151	14,684	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	23,744	110,647	General terms and conditions	1%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	19,807	92,301	General terms and conditions	2%
		AirTAC Industrial Co., Ltd.	3	Sales revenue	17,738	82,659	General terms and conditions	1%
		ATC (Italia) S.R.L.	3	Sales revenue	3,023	14,087	General terms and conditions	-
		AirTAC(China) Co.	3	Accounts receivable	69,558	324,140	General terms and conditions	3%
		AirTAC(China) Co.	3	Sales revenue	185,799	865,823	General terms and conditions	15%
		Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	4,613	21,497	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	26,928	125,484	General terms and conditions	2%
4	AirTAC Industrial Co.,	Ningbo AirTAC Automatic Industrial Co.	3	Non-operating income	2,246	10,466	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	3,292	15,341	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	17,738	82,659	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	3,150	14,679	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3					
		AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	3					
		AirTAC International Group	2	Other receivable	12,550	58,483	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	12,771	59,513	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	6,231	29,036	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	3,023	14,087	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Other receivable	271,243	1,263,992	General terms and conditions	12%
		Ningbo AirTAC Automatic Industrial Co.	1	Interest income	5,638	26,273	General terms and conditions	-
5	ATC (Italia) S.R.L. '	ATC (Italia) S.R.L	1	Other receivable	12,550	58,483	General terms and conditions	1%
		Hong Kong AirTAC Industry Co., Ltd.	1	Dividends receivable	2,388	11,128	General terms and conditions	-
		AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	1	Other receivable	9,428	43,934	General terms and conditions	-
		AirTAC International Group	1					
		Ningbo AirTAC Automatic Industrial Co.	2	Dividends payable	2,388	11,128	General terms and conditions	-
7	Hong Kong AirTAC Industry Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	2	Accounts payable	114,921	535,532	General terms and conditions	5%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	468,060	2,181,160	General terms and conditions	38%
8	AirTAC (China) Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	183,115	853,316	General terms and conditions	15%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Other liabilities-current	6,203	28,906	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	4,127	19,232	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Costs of goods sold	79,597	370,922	General terms and conditions	7%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Purchase property, plant, and equipment	16,704	77,841	General terms and conditions	1%
			3					

(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		
9 10	Hong Kong AirTAC Trading Co., Ltd. AIRTAC INTERNATIONAL (SINGAPORE) PTE. LTD.	Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts payable	\$ 60,336	\$ 281,166	General terms and conditions	3%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	69,558	324,140	General terms and conditions	3%
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	185,799	865,823	General terms and conditions	15%
		Jianliang (Shanghai) Trading Co., Ltd.	1	Dividends receivable	82,935	386,477	General terms and conditions	4%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	6,168	28,743	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	6,212	28,948	General terms and conditions	1%
		AirTAC Industrial Co., Ltd.	3	Accounts payable	3,150	14,679	General terms and conditions	-
		AirTAC International Group	2	Other payable	9,428	43,934	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
2011

Table 10

Unit: \$1,000

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
1	Jianliang (Shanghai) Trading Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	\$ 435,509	\$2,093,492	General terms and conditions	37%
		Ningbo AirTAC Automatic Industrial Co.	3	Non-operating expenses	20	96	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	82,116	394,732	General terms and conditions	5%
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	143,064	687,709	General terms and conditions	12%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	9,778	47,003	General terms and conditions	1%
		AirTAC (China) Co.	3	Costs of goods sold	58,343	280,455	General terms and conditions	5%
		Hong Kong AirTAC Trading Co., Ltd.	2	Dividends payable	111,370	535,356	General terms and conditions	6%
		AirTAC International Group	2	Other payable	153,112	736,009	General terms and conditions	9%
2	Ningbo AirTAC Automatic Industrial Co.	AirTAC International Group	2	Interest expenses	3,241	15,579	General terms and conditions	-
		AirTAC (China) Co.	3	Other receivable	8,092	38,898	General terms and conditions	-
		AirTAC (China) Co.	3	Land use right	7,947	38,201	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Sales revenue	79,742	383,320	General terms and conditions	7%
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	16,126	77,518	General terms and conditions	1%
		Guangdong AirTAC Automatic Industrial Co.	3	R&D expenses	4	19	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts receivable	6,951	33,413	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	5,974	28,717	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	435,529	2,093,588	General terms and conditions	37%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	82,116	394,732	General terms and conditions	5%
		AirTAC Industrial Co., Ltd.	3	Sales revenue	26,452	127,155	General terms and conditions	2%
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	10,353	49,767	General terms and conditions	1%
		AirTAC Industrial Co., Ltd.	3	Non-operating income	78	375	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts receivable	2,298	11,046	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Accounts payable	3,495	16,800	General terms and conditions	-
		AirTAC Industrial Co., Ltd.	3	Costs of goods sold	2,316	11,133	General terms and conditions	-
		Hong Kong AirTAC Industrial Co., Ltd.	2	Dividends payable	11,031	53,026	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Sales revenue	9,803	47,123	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Non-operating income	182	875	General terms and conditions	-
		ATC (Italia) S.R.L	3	Accounts receivable	2,637	12,676	General terms and conditions	-
3	Guangdong AirTAC Automatic Industrial Co.	Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	16,108	77,431	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Non-operating income	22	106	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	79,742	383,320	General terms and conditions	7%

(Continued)

(Continued)

No.	Company Name	Counterparty (Related Party)	Nature of Relationship (Note)	Transaction Details				
				Financial Statement Account	Amount		Payment Terms	% of Consolidated Sales or Assets
					RMB	TWD		
4	AirTAC Industrial Co.	Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	\$ 5,974	\$ 28,717	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	6,951	33,413	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	143,064	687,709	General terms and conditions	12%
		Jianliang (Shanghai) Trading Co., Ltd.	3	Accounts receivable	9,778	47,003	General terms and conditions	1%
		AirTAC Industrial Co., Ltd.	3	Sales revenue	15,845	76,167	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Sales revenue	2,628	12,633	General terms and conditions	-
		AirTAC (China) Co.	3	Accounts receivable	7,910	38,023	General terms and conditions	-
		AirTAC (China) Co.	3	Sales revenue	55,564	267,096	General terms and conditions	5%
		AirTAC International Group	2	Technical service income	3,653	17,560	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Sales revenue	10,353	49,767	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	26,530	127,530	General terms and conditions	2%
		Ningbo AirTAC Automatic Industrial Co.	3	Non-operating income	2,316	11,133	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts receivable	918	4,413	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Other receivable	2,577	12,387	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	2,298	11,046	General terms and conditions	-
5	ATC (Italia) S.R.L	Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	15,845	76,167	General terms and conditions	1%
		AirTAC International Group	2	Other payable	8,151	39,182	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Costs of goods sold	9,985	47,998	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Accounts payable	2,637	12,676	General terms and conditions	-
6	AirTAC International Group	Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	2,628	12,633	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	1	Other receivable	153,112	736,009	General terms and conditions	9%
		Ningbo AirTAC Automatic Industrial Co.	1	Interest income	3,241	15,579	General terms and conditions	-
		AirTAC Industrial Co.	1	Management expenses	3,653	17,560	General terms and conditions	-
		ATC (Italia) S.R.L	1	Other receivable	8,151	39,182	General terms and conditions	-
7	Hong Kong Industrial Co., Ltd.	Hong Kong Industrial Co., Ltd.	1	Dividends receivable	2,394	11,508	General terms and conditions	-
		AirTAC International Group	2	Dividends payable	2,394	11,508	General terms and conditions	-
8	AirTAC (China) Co., Ltd.	Ningbo AirTAC Automatic Industrial Co.	1	Dividends receivable	11,031	53,026	General terms and conditions	1%
		Ningbo AirTAC Automatic Industrial Co.	3	Land use right	\$ 7,947	\$ 38,201	General terms and conditions	-
		Ningbo AirTAC Automatic Industrial Co.	3	Other payable	8,092	38,898	General terms and conditions	-
		Jianliang (Shanghai) Trading Co., Ltd.	3	Sales revenue	58,343	280,455	General terms and conditions	5%
		Guangdong AirTAC Automatic Industrial Co.	3	Accounts payable	7,910	38,023	General terms and conditions	-
		Guangdong AirTAC Automatic Industrial Co.	3	Costs of goods sold	55,564	267,096	General terms and conditions	5%
9	Hong Kong Trading Co., Ltd.	Jianliang (Shanghai) Trading Co., Ltd.	1	Dividends receivable	111,370	535,356	General terms and conditions	6%

(Continued)

(Continued)

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

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

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

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

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
			by its vested authority. The difference arises from the nature of shareholder's right to request annulment of resolution and the Company's Articles of Association do not restrict the right of shareholders to file a lawsuit or seek relief from a court."
3	<p>A company shall not do any of the following acts without a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. If the total number of shares represented by shareholders present at a shareholders' meeting is not sufficient to meet the criteria specified above, the resolution may be adopted by two-thirds of the votes of the shareholders present at a shareholders' meeting who represent a majority of the total number of issued shares:</p> <ol style="list-style-type: none"> 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. 2. Modify Articles of Association. 3. Where amendment to the Articles of Association injures the rights of preferred stockholders, resolution adopted by preferred stockholders is also required. 4. Distribute dividends or bonus in whole or in part, by issuing new shares. 5. A resolution on dissolution, merger or split. 6. Private placement of securities. 	<ol style="list-style-type: none"> 1 Article 185 of Company Act. 2 Article 209 of Company Act. 3 Article 227 of Company Act. 4 Article 277 of Company Act. 5 Paragraph 1, Article 240 of Company Act. 6 Article 316 of Company Act. 7 Article 436 of Securities and Exchange Act. 	<p>1. Section 1.1 of the Company's Articles of Association</p> <p>(1) Provisions in the Company's Articles of Association:</p> <p>According to Section 1.1 of the Company's Articles of Association, a special resolution means "a resolution that has been passed by a majority of not less than two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given." According to the Cayman Islands legal opinions, matters that require special resolution include but are not limited to: (i) change the company name; (ii) alter or add to articles of association; (iii) alter articles of association with respect to any objects, powers or other matters specified therein; (iv) reduce share capital and any capital redemption reserve; and (v) wind up voluntarily for reasons other than that the company is unable to pay its debts as they fall due. Section 18.1 of the Company's Articles of Association provides: "No business shall be transacted at a general meeting unless a quorum is present. Unless otherwise provided in the Articles, Members present in person or by proxy, representing more than one-half of the total outstanding Shares, shall constitute a quorum for any general meeting." That is, a special resolution may be adopted at a shareholders' meeting attended by shareholders representing the majority of shares issued and outstanding in person or by proxy, and in which at least two-thirds of the votes cast by the shareholders present (including shareholders present by proxy) are in favor of the resolution.</p> <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</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>any resolution adopted by shareholders lower than the threshold for special resolution is deemed invalid according to the Cayman Islands Companies Law. Thus in the Company's Articles of Association concerning important shareholder protection matters that require special (supermajority) resolution, those that require special resolution in accordance with the Cayman Islands Companies Law are kept as "special resolution" items, while the other shareholder protection matters are added to the Articles of Association as requiring "special (supermajority) resolution."</p> <p>2. Section 14.3 of the Company's Articles of Association</p> <p>(1) Provisions in the Company's Articles of Association:</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</p>

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
			circumstances.
4	In case a director has, in the course of performing his/her duties, committed any act resulting in material damages to the company or in serious violation of applicable laws and/or regulations, but not discharged by a resolution of the shareholders' meeting, the shareholder(s) holding 3% or more of the total number of outstanding shares of the company may, within 30 days after that shareholders' meeting, institute a lawsuit in the court for a judgment in respect of such matter, and request that Taiwan Taipei District Court be the court of jurisdiction for the first instance.	Article 200 of Company Act	<p>(1) Provisions in the Company's Articles of Association: Section 28.2 (i) of the Company's Articles of Association provides: "In the event that a director has, in the course of performing his duties, committed any act resulting in material damage to the Company or in serious violation of applicable laws and/or regulations or the Memorandum and the Articles, but has not been removed by the Company pursuant to a Supermajority Resolution vote, then any Member(s) within thirty days after the general meeting, to petition any competent court for the removal of such Director, at the Company's expense and such Director shall be removed upon the final judgment by such court. For clarification, if a relevant court has competent jurisdiction to adjudicate all of the foregoing matters in a single or a series of proceedings, then, for the purpose of this paragraph (i), final judgment shall be given by such competent court." This section differs slightly from the shareholder protection clauses on the left.</p> <p>(2) Reasons for differences: A Cayman Islands court will not acknowledge any foreign court ruling on matters other than a monetary judgment without actually trying the dispute. Thus even if the shareholder protection clauses on the left are incorporated into the Company's Articles of Association, any ruling made by the court of jurisdiction in Taiwan on discharging a director may not be directly acknowledged and enforced by the Cayman Islands court. Thus the Company's Articles of Association provides that shareholders should institute such lawsuit in the court of jurisdiction. The difference arises from the acknowledgment and enforcement of foreign judgments according to Cayman Islands laws. However shareholders may still seek the discharge of a director according to the procedure set out in the Articles of Association.</p>
5	1. Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China.	Articles 216-222 of Company Act	Pursuant to the front section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules for Review of Securities Listings, "A foreign issuer may elect to set up an audit committee or the position of supervisor." The Company has set up an audit committee composed of all independent

	Major Shareholder Protection Measures	Regulations Relating to <i>Company Act</i> and <i>Securities and Exchange Act</i>	Difference in the Company's Articles of Association and Reasons
	<ol style="list-style-type: none"> 2. The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election. 3. In case all supervisors of a company are discharged, the board of directors shall, within 60 days, convene a special meeting of shareholders to elect new supervisors. 4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company examine the accounting books and documents, and request the board of directors or managerial personnel to make reports thereon. 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. 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. 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. 8. Supervisor may each exercise the supervision power individually. 9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company. 		<p>directors of the Company and hence is not required to elect supervisors. Hence the shareholder protection measure on the left is not incorporated into the Company's Articles of Association.</p>

AirTAC International Group

Chairman: Wang Shih-Chung