

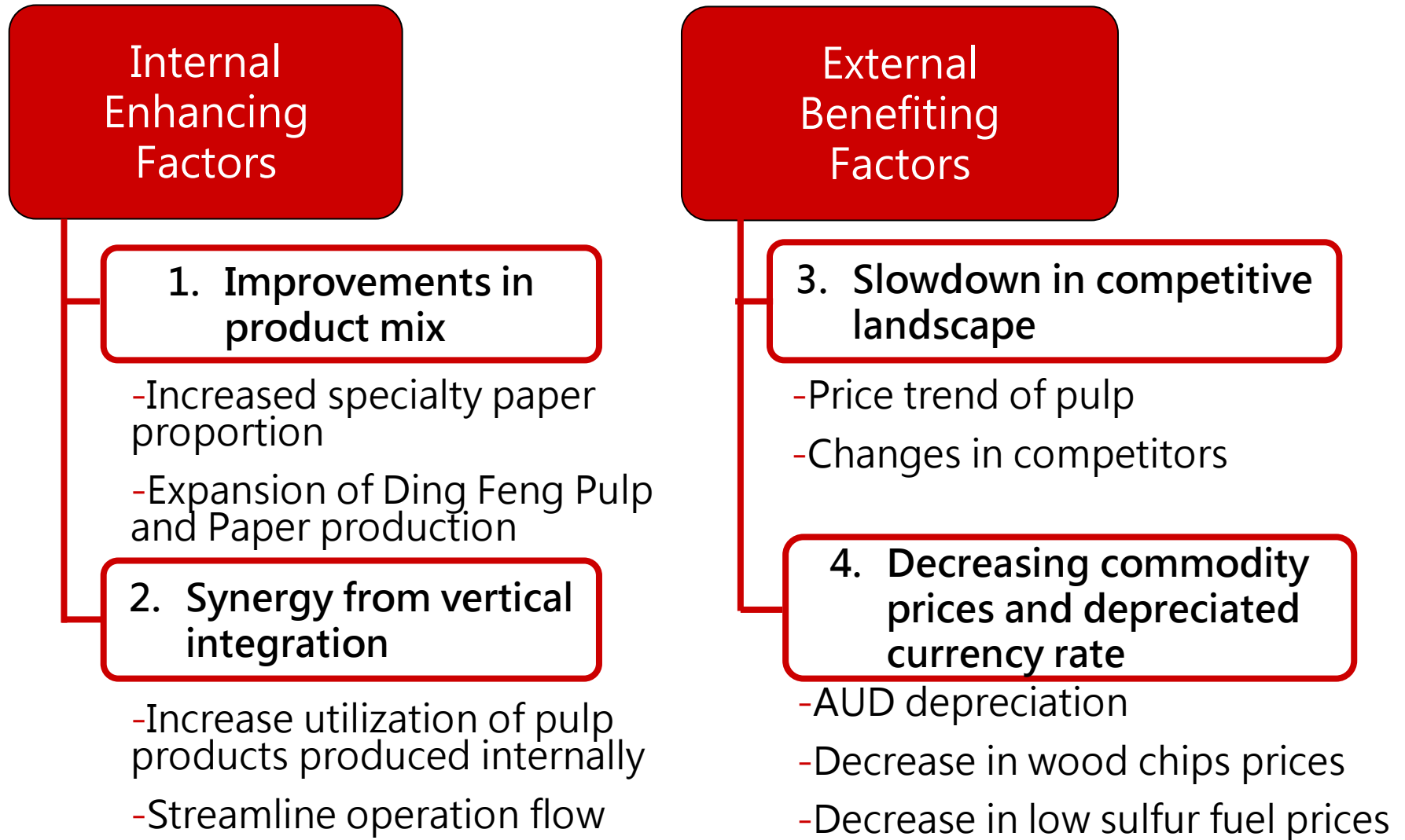


Operation Transformation Report

Vertical Integration, Value-added Technology ,
Environmental Protection



2015 will be a turnaround year for CHP



Internal Enhancing Factors

1. Improvements in product mix

- Increased specialty paper proportion

- CHP continues to be the leading paper enterprise in Taiwan, teamed with its excellent sales force and progressive technical and mechanical transformations.
- CHP has successfully transformed into a high value-added specialty paper supplier from a mere commodity supplier. Currently, the high margin of specialty paper to total sales continues to raise.
- **Market Positions of Specialty paper :**
 - Global presence : 25 countries world-wide, including 15 in Asia-Pacific , 4 in Europe , 3 in Latin America , 1 in North America and 2 in Africa.
 - The demand of label paper continues to raise, especially in Asia-Pacific and India. These markets have a compounded annual growth rate of 5-10% in recent years. **CHP's market shares in label paper rank 1st in Asia and 3rd world-wide.**
 - Industrial tape paper is also a key product in our transformation project. Due to the product' s versatility in the industrial production arena, the demand for industrial tape paper is expected to continue to grow.

1. Improvements in product mix

- Expansion of Ding Feng Pulp and Paper production

- ❑ In December of 2014, CHP's board passed the expansion plan of Guangdong Ding Feng Pulp and Paper to start production of 50,000 tons household paper mill annually.
- ❑ The trial run is expected to be completed before the end of 2015.



2. Synergy of vertical Integration

- Increase utilization of pulp products produced internally
-

Yuen Foong Yu Group (including Yuen Foong Yu Packaging Inc., Yuen Foong Yu Consumer Products Co., Ltd., etc.) has made pulp procurement from CHP their first priority. This aims to increase efficiencies amongst the production and sales processes and steadily decrease pulp inventories.

2. Synergy of vertical Integration

- Streamline operation flow

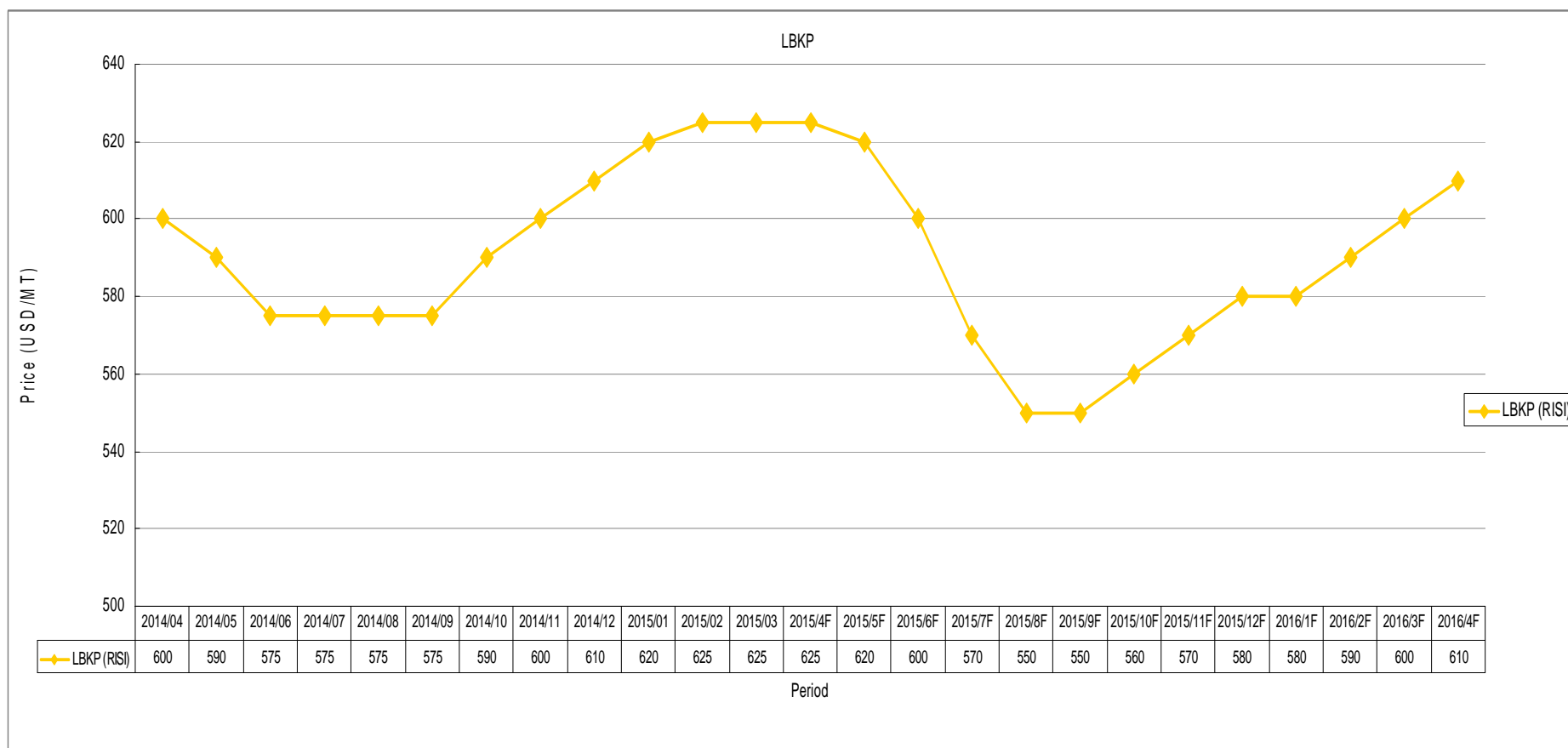
- Wet pulp benefit- Cost saving in both drying pulp by pulp mill and scattering pulp by paper mill.
 - Cost saving in pulp production.
 - Cost saving in energy and papermaking by integrating resources from three plants.
- Effective integration of production line to increase productivity.
- Centralized material procurement and contract negotiation to reduce material purchasing costs.
- Strengthen the capacities of management network and effectively implement strategic plans.
- Integration of Research & Development resources to increase the efficiency of technological and product innovations.

External Benefiting Factors

3. Slowdown in competitive landscape

- Price trend of pulp

□ Price trend of pulp -LBKP (2013/11~2016/4)



Source:RISI

3. Slowdown in competitive landscape

-Changes in competitors

□ Cultural Paper:

The total domestic production of cultural paper is 530,000 tons in 2014, -5.4% YoY.

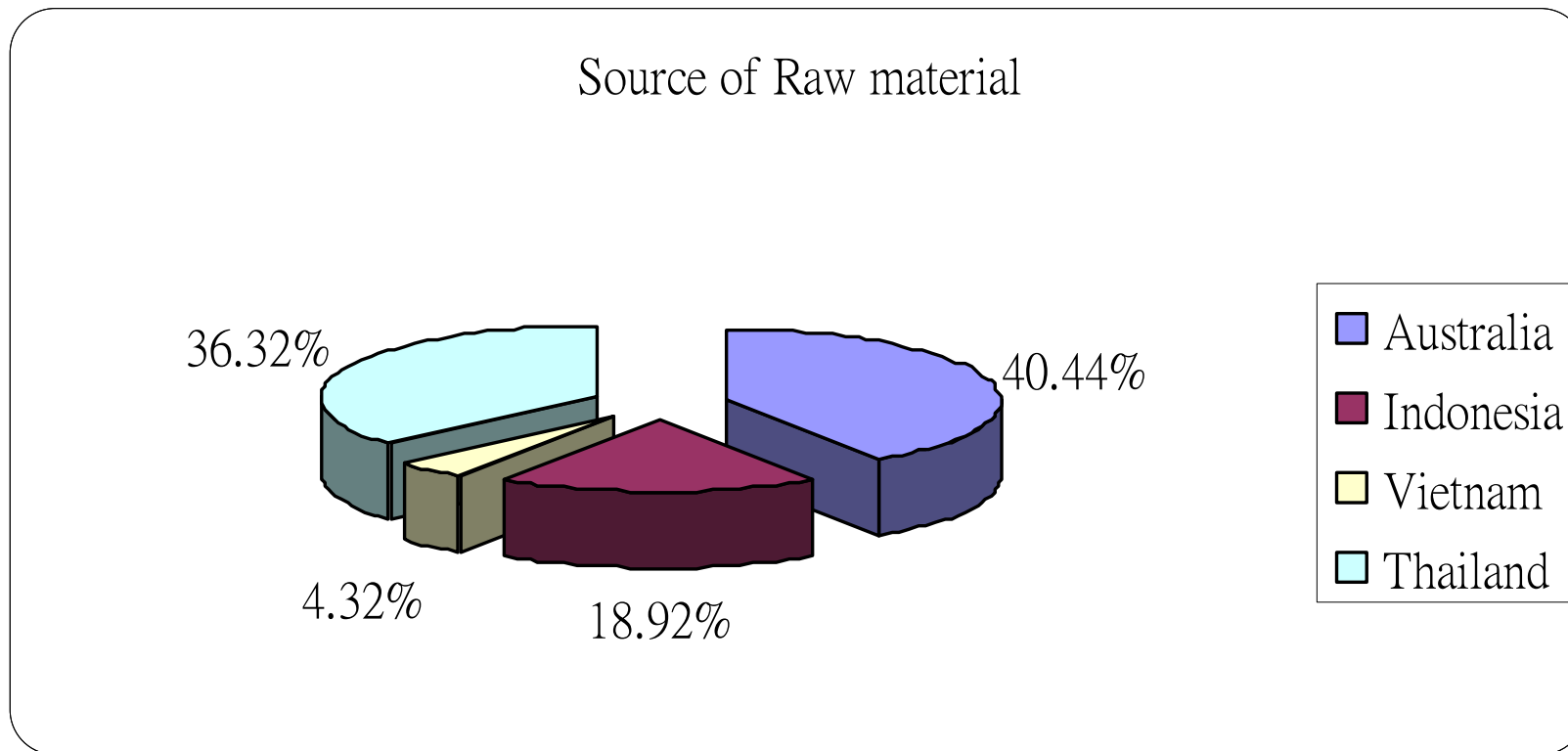
The aggregate of import and export is 550,000 tons in 2014, -1.8% YoY. Some manufacturers of cultural paper have gradually withdrew from this market.

□ White Paperboard:

The total domestic production of white paperboard is 520,000 tons in 2014, -10.3% YoY.

The aggregate of import and export is 640,000 tons in 2014, which is the same as 2013.

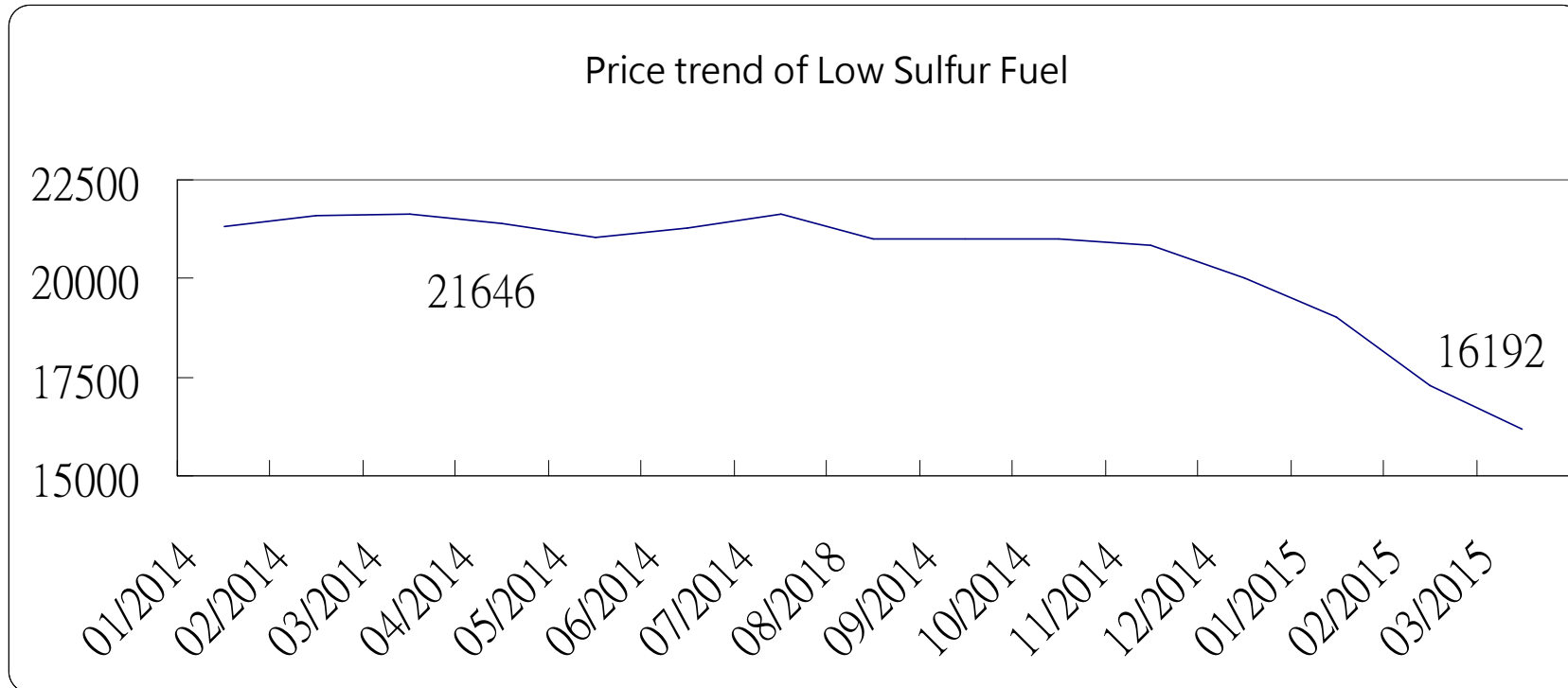
4. Decreasing commodity prices and depreciated currency rate -AUD depreciation and decrease in wood chips prices



- The depreciating trend of Australian dollar will enhance cost reduction in materials and boost profit.

4. Decreasing commodity prices and depreciated currency rate -Decrease in low sulfur fuel prices

□ Price trend of Low Sulfur Fuel

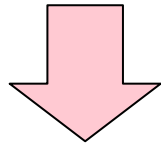


- The reduction in energy cost will further boost profit.

Summary

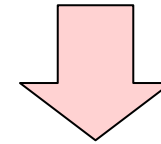
Key focus of operation transformation

Taiwan



The proportion of pulp sales fell from 47.13% in 2011 (pre-merger) to **5.26%** in 2014 and the proportion of paper sales increased from 51.60% in 2011 (pre-merger) to **92.37%** in 2014.

China



CHP's subsidiary, Guangdong Ding Feng Pulp and Paper, invested in co-generation equipment to start production of 50,000 tons household paper mill annually , and the trial run is expected to be completed before the end of 2015.

2014 Condensed Income Statement

NT\$ in thousands, year end Dec	2014Q1		2014Q2		2014Q3		2014Q4	
Income Statement								
Revenue	5,161,187	100%	5,263,974	100%	5,080,147	100%	5,639,622	100%
Cost of goods sold	4,890,457	95%	4,997,305	95%	4,785,844	94%	5,078,555	90%
Gross Profit	270,730	5%	266,669	5%	294,303	6%	561,067	10%
Operating Income	-75,826	-1%	-129,773	-2%	-96,923	-2%	180,542	3%
Non-Operating Income & Expense	39,180	1%	10,573	0%	42,651	1%	42,778	1%
Net Income Before Income Tax	-36,646	-1%	-119,200	-2%	-54,272	-1%	223,320	4%
Net Income Before Income Tax (attributable owners of the parent)	-39,579	-1%	-105,647	-2%	-44,874	-1%	217,596	4%
Earnings Per Share (EPS)	-0.03		-0.09		-0.03		0.17	

Gross profit margin increases from 5% to **10%** in 4Q 2014. Concurrently, quarterly operating margin became **positive**.

Operations have drastically improved, and significant return on investment is to be expected

- Operating conditions have improved significantly since 4Q14. Concurrently, quarterly operating margin became positive.
- The average stock price in 2014 is NT\$9.06 and the stock is trading near historical low P/B ratio of 0.56X.

Financial Ratios

	2010	2011	2012	2013	2014
Average Price(NT\$)	13.63	12.44	9.94	9.59	9.06
Average P/E(X)	8.9	622.0	N/A	N/A	402.8
Average P/B(X)	0.93	0.93	0.85	0.71	0.56
EPS (NT\$)	1.54	0.02	-0.29	-0.55	0.02
BVPS(NT\$)	14.69	13.41	11.72	13.47	14.19
DVPS(NT\$)	0	1	0	0	0
Dividend Yield rate	0	7.97%	0	0	0
ROE	11.2%	0.7%	-1.8%	-3.5%	0.2%
ROA	8.3%	0.6%	-1.1%	-2.3%	0.1%
Debt Ratio	25%	31%	31%	31%	32%

Q & A
