

**Ticker: 4137**

# **Chlitina Holding Limited**

# Annual Report 2015

Annual report is available at <http://newmops.twse.com.tw>

Chlitina's Website: <http://www.chlitina.com>

Prepared by Chlitina Holding Limited | Published on May 31, 2016

## I. Name, Title, Contact Tel and E-mail for Spokesperson and Deputy Spokesperson

Spokesperson:

Name: Hu, Hui

Title: CFO

Tel No.: (886)2-27238666 E-mail: [investor@chlitina.com](mailto:investor@chlitina.com)

Deputy Spokesperson:

Name: Pao, Min-Chun

Title: Senior Manager of Investment Analysis Division

Tel No.: (886)2-27238666 E-mail: [investor@chlitina.com](mailto:investor@chlitina.com)

## II. Address and Tel No. of Headquarters, Branches and Plant

### (1) Companies

Name: Chlitina Holding Limited

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

Address: Cricket Square, Hutchins Drive, P.O. Box  
2681, Grand Cayman , KY1-1111, Cayman  
Islands

Tel No.: (886)2-27238666

### (2) Subsidiaries and Branches:

#### 1. Subsidiaries:

Name: Chlitina Group Limited

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

Address: OMC Chambers, Wickhams Cay 1, Road  
Town, Tortola, British Virgin Islands

Tel No.: (886)2-27238666

Name: Chlitina International Limited

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

Address: OMC Chambers, Wickhams Cay 1, Road  
Town, Tortola, British Virgin Islands

Tel No.: (886)2-27238666

Name: Chlitina Intelligence Limited

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

Address: OMC Chambers, Wickhams Cay 1, Road  
Town, Tortola, British Virgin Islands

Tel No.: (886)2-27238666

Name: W-Amber International Limited (Changed  
name from Crystal Asia International Limited)

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

Address: OMC Chambers, Wickhams Cay 1, Road  
Town, Tortola, British Virgin Islands  
Tel No.: (886)2-27238666

Name: Centre de Recherche et de Developpement de  
CHLITINA FRANCE EURL  
Website: <http://www.chlitina.com>  
Tel No.: (886)2-27238666

Address: 102, avenue des Champs Elysées, 75008  
Paris

Name: Chlitina Marketing Limited  
Website: <http://www.chlitina.com>  
Tel No.: (886)2-27238666

Address: OMC Chambers, Wickhams Cay 1, Road  
Town, Tortola, British Virgin Islands

Name: W-Amber Marketing Limited (Changed name  
from Crystal Asia Marketing Limited )  
Website: <http://www.chlitina.com>

Address: OMC Chambers, Wickhams Cay 1, Road  
Town, Tortola, British Virgin Islands  
Tel No.: (886)2-27238666

Name: Hong Kong Chlitina International Limited  
Website: <http://www.chlitina.com>  
Tel No.: (852)-23763068

Address: Room 308, 3rd Floor, Lippo Sun Plaza, 28  
Canton Road, Tsimshatsui, Kowloon, Hong  
Kong

Name: Hong Kong Crystal Asia International Limited  
Website: <http://www.chlitina.com>  
Tel No.: (852)-23763068

Address: Room 308, 3rd Floor, Lippo Sun Plaza, 28  
Canton Road, Tsimshatsui, Kowloon, Hong  
Kong

Name: Chlitina (Shanghai) Trade Limited  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)21-22201388

Address: 209B Room, No. 1, Alley 180, Shanxi S. Rd.,  
Shanghai City

Name: Weishuo (Shanghai) Daily Product Limited  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)21-57075707

Address: 1F and 3F of Building 2, No. 58, Jingxi Rd.,  
Songjiang Industrial Park, Shanghai City,  
China

Name: Wuguan (Shanghai) Trade Limited  
website: <http://www.chlitina.com.cn>  
Tel: (86)21-22201388

Address: Site B81, 2F, Building 2, No. 251, Jihying S.  
Rd., China (Shanghai) Pilot Free Trade Zone

Name: Weihu (Shanghai) Trade Limited  
website: <http://www.chlitina.com>  
Tel: (86)21-22201388

Address: Room 213, No. 1, Alley 180, Shanxi S. Rd.,  
Xuhui District, Shanghai City, China

## 2.Branches:

- Name: British Virgin IS. Chlitina Marketing Limited  
Taiwan Branch  
Address: 10F, No. 107, Songren Rd., Xinyi District,  
Taipei City  
Website: <http://www.chlitina.com>  
Tel No.: (886)2-27238666  
website: <http://www.chlitina.com>  
Tel No.: (886)2-27238666
- Name: British Virgin IS., Chlitina Intelligence  
Limited, Taiwan Branch  
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Taipei City  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)25-52601169
- Name: Chlitina (Shanghai) Trade Limited, Nanjing  
Branch  
Address: Room 2026, No. 8, Hanzhong Rd., Gulou  
District, Nanjing City, Giangsu Province,  
China  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)25-52601169
- Name: Chlitina (Shanghai) Trade Limited, Nanjing  
Qinhuai Branch  
Address: No. 503, Zhongshan S. Rd., Qinhuai District,  
Nanjing City, Giangsu Province, China  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)25-52601169
- Name: Chlitina (Shanghai) Trade Limited, Dalien  
Marketing Branch  
Address: Room 2209, Hongyuan Building, No. 23,  
Renmin Rd., Zhongshan District, Dalien  
City, Liaoning Province, China  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)411-82563000
- Name: Chlitina (Shanghai) Trade Limited, Dalien  
Branch  
Address: No. 6-1-1-2, Xinglin St., Zhongshan District,  
Dalien City, Liaoning Province, China  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 411-82558455
- Name: Chlitina (Shanghai) Trade Limited, Guangzhou  
Branch  
Address: Room 1319, Zhonglv Commercial Mall, No.  
219, Zhongshan 5<sup>th</sup> Rd., Guangzhou City,  
Guangdong Province, China  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)20-83278819
- Name: Chlitina (Shanghai) Trade Limited, Hangzhou  
Branch  
Address: Room 1319, Zhonglv Commercial Mall, No.  
219, Zhongshan 5<sup>th</sup> Rd., Guangzhou City,  
Guangdong Province, China  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 571-87073663

Address: Room 701, No. 9, Qingchun Rd.,  
Shangcheng District, Hangzhou City,  
Zhejiang Province, China

Name: Chlitina (Shanghai) Trade Limited, Shenzun Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 755-25596194

Address: Room 1504, Taishan Building, No. 1161,  
Heping Rd., Lohu District, Shenzhen City,  
Guangdong Province, China

Name: Chlitina (Shanghai) Trade Limited, Beijing Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 10-87923880

Address: Unit 3, E. Tower 201, Level 2, 7F-Yuan, No.  
8, Xibinhe Rd., Yongdingmen, Dongcheng  
District, Beijing City, China

Name: Chlitina (Shanghai) Trade Limited, Ningpo Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 574-87262718

Address: No. 8, Nengjing St., Haishu District, Ningpo  
City, China (Room 9-7)

Name: Chlitina (Shanghai) Trade Limited, Tianjin Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 22-58656188

Address: No. 20-1, Pingan St., Hebei District, Tianjin  
City, China

Name: Chlitina (Shanghai) Trade Limited, Chengdu Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 28-86139017

Address: No. 83-85, Xiaonan St., Qingyang District,  
Chengdu City, China

Name: Chlitina (Shanghai) Trade Limited, Chengdu  
Second Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86) 28-86132535

Address: Units 06 and 07, 10F, Huarun Building, No.  
10, Shuangqing Rd., Chenghua District,  
Chengdu City

Name: Chlitina (Shanghai) Trade Limited, Changning  
Branch  
Website: <http://www.chlitina.com.cn>  
Tel No.: (86)21-22201239

Address: No. 805, No. 666, Huaihai W. Rd., Shanghai  
City, China

Name: Chlitina (Shanghai) Trade Limited, Hebei Branch  
 Website: <http://www.chlitina.com.cn>  
 Tel No.: (86)311-66611086  
 Address: Room 1632, Ximei Building, No. 6, Jianshe S. Main St., Shijiazhuang City, Hebei Province, China

Name: Chlitina (Shanghai) Trade Limited, Fujian Branch  
 website: <http://www.chlitina.com.cn>  
 Tel: (86)0591-87388010  
 Address: Room 1201, Level 13, 2F, Jinhui Building, No. 492, Hualin Rd., Jinan District, Fuzhou City, Fujian Province, China

Name: Chlitina (Shanghai) Trade Limited, Shanxi Branch  
 website: <http://www.chlitina.com.cn>  
 Tel: (86)029-87206345  
 Address: Room 301, Level 3, Jinding Building, No. 116, Heping Rd., Xian City, Shanxi Province, China

Name: Chlitina (Shanghai) Trade Limited, Wenzhou Branch  
 website: <http://www.chlitina.com.cn>  
 Tel: (86)0577-88309620  
 Address: Room 2101, Building 1, Jaohang Plaza, Station Avenue, Wenzhou City, Zhejiang Province, China

Name: Chlitina (Shanghai) Trade Limited, Hsuhui Branch  
 website: <http://www.chlitina.com.cn>  
 Tel: (86)021-22201388  
 Address: No. 2, Alley 1390, Huaihai W. Rd., Xuhui District, Shanghai City, China

III. Name, Address, Website and Tel No. for Stock Transfer Organization

Name: Transfer Agency Department, Fubon Securities  
 Address: 2F, No. 17, Xuchang St., Taipei City  
 Website: <http://www.fubon.com>  
 Tel No.: (886)2-23611300

IV. Name, Office Name, Address, Website and Tel No. of CPA for recent financial reports

Name: CPAs Huang, Po-Shu and Yu, An-Tian  
 Accounting Firm: KPMG  
 Address: 68F, No. 7, Sec. 5, Xinyi Rd., Taipei City

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

Tel No.: (886)2-81016666

V. Names, Titles, Tel Nos. and E-mails of Litigation and Non-litigation Agent within the Republic of China

Name: Pi-hua Joanna Chen Title: Chairperson

Tel No.: (886)2-2723-8666 E-mail: [investor@chlitina.com](mailto:investor@chlitina.com)

VI. Name of Overseas Securities Exchange Office & the way to inquire into information of securities:  
None

VII. Company Website: <http://www.chlitina.com>

VIII. List of Board of Directors

Title	Nationality	Name	Education & Past Positions	Current Positions at Other Companies
Chairperson	R.O.C.	Pi-hua Joanna Chen	EMBA, Tongji University Ph. D of Keuka College, USA	Note 1
Director	British Virgin IS.	Wealthy Garden Investment Limited	-	-
	R.O.C.	Representative: Chen, Pei-Wen	MBA, US Seton Hall University-in studying Private Daren Girls' High School in Taipei-graduation	Note 2
	R.O.C.	Yi Zhu	Dept. of Business Administration, Fu Jen Catholic University- graduation Regis University MBA, USA Harvard Business School - Advanced Management Program 1996 First term President of Estee Lauder Group Founding director and honor director of Taiwan Cosmetics Industry Association	Alchemy Corporation USA - President Very Mulan Investment Co., Ltd. - Adviser Taiwan Clinical Oncology Research Foundation - Vice Chairperson
Director	Mainland China	Sizong Wu	Master of Economics, Shanghai University of Finance and Economics Professor of Jiangxi University of Finance and Economics	Professor, School of Economy and Management, Tongji University Independent Director of Top Spring International Holdings Limited
Director	R.O.C.	Chung-Teh Lee	LLM, JD of School of Law, University of California, Berkeley Bachelor of Laws, National Taiwan University	Lee, Tsai & Partners/Chaired Partnership Lawyer Director of Taiwan Foundation For Rare Disorders Member of 10th Coordination Committee, Bureau of High Speed Rail, Ministry of Transportation and Communications Director of Cleaner Production & Regional Development Foundation Ching Chu Co., Ltd. /Chairperson
Independent Director	R.O.C.	Yuqin Cai	Doctor, School of Accounting, Shanghai University of Finance and Economics Master, College of Accounting, National Chengchi University Director of Audit Dept., KPMG Assistant Professor, Dept. of Accounting, China University of Technology Passing High Level CPA Civil Test	Supervisor of Nichidenbo Corporation Supervisor of Tong Hsing Electronic Industries, Ltd. Independent Director of Mag. Layers Scientific Technics Co., Ltd. Assistant Professor, Dept. of Accounting, China University of Technology



				Mag. Layers Scientific Technics Co., Ltd. -Member of Remuneration committee ITEQ CORPORATION-Member of Remuneration committee
Independent Director	R.O.C.	Pengwen Gao	MBA, Duke University, USA - graduation Main Products CFO, Global FDP and CFO, Electronic Spare Parts, Asia-Pacific Area of Philips President and COO of Walsin Lihwa	Director of Jess Link Products Co., Ltd. Director of Very Mulan Investment Co., Ltd. Director of Hsing En Investment Limited
Independent Director	R.O.C.	Hongding Yu	Dept. of Computer & Applied Sciences, Soochow University - graduation System Engineer, Products Manager and Business Manager of IBM Taiwan CEO, UNIX Server Products Div., IBM China CEO, MIDRANGER SERVER SYSTEM DIV., GREATER CHINA, IBM CHINA CEO, East and Central China, IBM China CEO, PRODUCTION, GREAT CHINA, IBM CHINA CEO, IBM Taiwan	-

Note 1: Director of (BVI) Chlitina Group Limited, (BVI) Chlitina International Limited, (BVI) Chlitina Intelligence Limited, Centre de Recherche et de Developpement de CHLITINA FRANCE EURL, Hong Kong Chlitina International Limited, (BVI) Chlitina Marketing Limited, (BVI) Wealthy Garden Investment Limited, (BVI) J&R International Holding Limited, (BVI) Pure Sky International Limited, Dida Business Administration Consultant Limited, Hsin Ke Biochemical Technology Co., Ltd., San Yen So International Co., Ltd., Chlitina Trade Limited, (BVI) Desheng Global Limited, Shanghai Cheng Yang Trading Co., Ltd., (BVI) W-Amber International Limited, (BVI) W-Amber Marketing Limited, Hong Kong Crystal Asia International Limited and of Beijing Yu Chia Cheng Yueh Investment & Management Limited. Besides, also serves Executive Director of Chlitina (Shanghai) Trade Limited, Weishuo (Shanghai) Daily Product Limited, Weihu (Shanghai) Trade Limited, Wuguan (Shanghai) Trade Limited, Manager of Branch of British Virgin IS., Chlitina Marketing Limited, Taiwan Branch and Manager of Branch of British Virgin IS., Chlitina Intelligence Limited, Taiwan Branch.

Note 2: Director of San Yen So International Co., Ltd., TuTu& Bow International Limited, Alexander Health Club (Shanghai), Alexander Health Club (Beijing), Chairperson of Alexander Health Club (Beijing-Dongzhimen), Kelti International Trade Co., Ltd., Charming Biotech Corporation, Dida Business Administration Consultant Company, Min Shang Trade Co., Ltd., Jishda Commercial Technology Co., Ltd., Action LIFE, Chlitina Trade Limited, J&V Global Limited,

TuTu& Bow International Limited, FORTUNE RADIANCE INVESTMENT LIMITED, Supervisor of Chaoneng Biochemical Technology Co., Ltd., Global Interactive Marketing Co., Ltd., Hsin Ke Biochemical Technology Co., Ltd., Gin Yong Ji Co., Ltd., Life Abundance Investment Co., Ltd., Kelti (China) Daily Product Co., Ltd., Jin Yen (Shanghai)Biotech Co., Ltd., Zhaocang (Shanghai) Trading Co., Ltd., Supervisor of Crystal Asia (Shanghai) Trade Limited.

Note 3: Director's domestic representative: mutual appointed between general directors and mutual appointed between independent directors.

Contact manner for domestic agent: Tel No. (886)2-27238666

E-mail: investor@chlitina.com

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IX. Any matters covered in Subparagraph 2 of Paragraph 2 of Article 36 of the Securities and Exchange Act occurred in the latest year and as of the date of printing of the annual report, which significantly impacted stockholders' equity and price of securities shall be explained: nil .....	223

# I. Report to Shareholders

Dear Shareholders:

Although the Chinese macroeconomic growth slowed down in 2015, the tertiary industry, especially the service sector showed strong growth. Urbanization continues to increase, and the disposal income for the urban residents keeps on rising. The changes in the consumption pattern present a great opportunity for our company's development. Annual consolidated operating revenue of our company in 2015 was NTD4,394,264 thousand with a 43.07% growth compared to the annual consolidated operating revenue NTD3,071,369 thousand for 2014. The growth can be contributed to the promotion of our company brand, the optimized integration of the manufacturing, and active development of the multi-channel sales.

The CHLITINA Holding Limited (hereinafter referred to as the Company) hereby reports its 2015 annual operating results and 2016 annual operating plan as follows:

## i. 2015 Annual Operating Results:

### (1) Operating Plan Implementation Results:

The Company's 2015 consolidated operating revenue totaled NTD4,394,264 thousand, which is a 43.07% growth rate as compared to the 2014 consolidated operating revenue of NTD3,071,369 thousand; the after-tax net profit was NTD1,167,087 thousand, which is a 54.41% growth rate as compared to the 2014 after-tax net profit of NTD755,837 thousand.

In terms of sales territories, the operating revenue for Mainland China was NTD4,245,775 thousand, which made up 96.62% of the operating revenue; the Mainland continues to be the largest market and main area of focus for expanding and growing the business for the Company.

### (2) Financial Revenue and Profitability Analysis:

In terms of the financial revenue and the financial structure, the Company's 2015 assets to liabilities ratio was 34%, the working capital ratio was 405%, the net profit margin was 27%, and the cash flow from operating activities was NTD549,758 thousand. These results not only demonstrate that the Company continues to grow in terms of performance and profit, but also its profitability and financial structure are also very stable.

### (3) Research Development Status

Due to market demand in 2015, the Company introduced advanced industry technology, directed at the target consumer groups from the various channels, and continued to introduce new products. In response to issues with mild maturity, ageing, and problematic skin, the Professional Line Channel researched and developed the high-end professional plant extracts muscle energy product series, based on "pure", "technology", and "efficiency" as its product

development direction, using the 3C suppliers channel as the Professional Line Channel's extension, to research and develop based on meeting the needs of "health" and "beauty" of a wider consumer group, and to research and develop based on "fashion", "efficiency", and "speedy" as the product demands. Different products were introduced through the different channels in order to fully maximize the ability to satisfy the personalized skin care needs of different consumers.

## **ii. 2016 Operation Plan Overview**

### **(1) Operating Strategy:**

1. Continue to deepen the brand essence of "Women, Love Bravely"; solidify the high quality noble brand image; elevate brand awareness; conduct brand communication through various media; precisely identify target consumer groups through high-end activity sponsorships and large marketing activities, in order to enhance the franchise loyalty or "stickiness" and the consumer acceptance.
2. Further strengthen the training mechanism for the Professional Line Channel; elevate the servicing skills of the beauticians and the profitability of the franchisees; leverage the advantage of the franchisee's high-end products coupled with professional services to improve the franchisee's appeal to consumers. Introduce new products to the market in a timely manner and aggressively leverage the advantage of the Professional Line products. With the Mainland continue to deepen the process of urbanization, and with the third and fourth-tier cities continue to grow in terms of consumer demand and spending power, we need to deepen our exploration of market potential and provide different levels of management for different regions. Establish different store expansion targets and franchise strategy; increase store expansion rate and quality, in order to achieve channel expansion.
3. Aggressively develop new channels, especially the development of 3C supplier channel. Start with the facial skin care products and expand to health care products; utilize a diversified marketing strategy in order to achieve "fast, effective and accurate", and attract a larger consumer group, especially the younger consumer group, in the hopes of completing the channel construct and coverage, expanding sales volume, and maximizing shareholders' equity.

### **(2) Expected Sales Volume and Basis:**

In 2016, the Company continues to contribute to the growth of the sales volumes of various channels to achieve their revenue growth targets by implementing the 2016 strategy of "efficient product treatment", "sales channel diversification", and "marketing strategy diversification", in accordance to the macro environment, industry characteristics, and market supply and demand

conditions.

### **iii. The Company's Future Development Strategy**

- (1) Elevate research capabilities, in accordance to specific channels and different consumer groups; continue to develop products that are professional, high-end, and have enhanced quality.
- (2) Continue to deepen the brand essence, expand brand influence, and strengthen consumer loyalty.
- (3) Comply with Mainland's pace of urbanization, continue to develop the third and fourth-tier cities and those potential markets, and discover potential consumer needs.
- (4) Speed up the development of 3C suppliers channel, achieve 24/7 and cross-region marketing to further attract a wider consumer group, especially the younger consumer group, and continue to expand sales volume.

### **iv. Impacts From External Competitive Environment, Regulatory Environment, and Overall Business Environment**

- (1) Impacts from External Competitive Environment and Overall Business Environment:

In 2015, the Chinese economic growth continued to show a trend of slowing down. According to the "2015 National Economic and Social Development Statistics Bulletin" published by the National Bureau of Statistics of China, the GDP growth rate was 6.9% for the Mainland region; tertiary industries GDP accounted for 50.5% of total national GDP. Tertiary industries, especially the service industry, saw significant growth. Under the influence of multiple factors such as industrialization, information technology, and elevated residential consumer spending, there was strong growth in the service industry. The tertiary industries grew by 8.3%, and the service industry continued to expand on its contribution to the growth of the economy. Consumer spending further enhances the pull action on growth, and the final annual rate of consumer spending's contribution to economic growth was 66.4%. The level of urbanization continued to increase, reaching 56.10%, and the income gap of urban and rural residents continued to shrink. The growth of the residents' income was greater than that of the economy, where the annual national per capita disposal income grew by 8.9% compared to the previous year; after eliminating pricing factors, the actual growth rate was 7.4%, which was faster than the domestic GDP growth rate by 0.5-percentage point. Service industry development, urbanization pace, and residential per capita income increase all demonstrate the enormous potential of the Chinese consumer product market, especially the cosmetics products industry and service industry. Within the above designated size enterprise retail sales, cosmetics products grew by 8.8%. In addition, according to relevant industry reports published by Euromonitor International, the future compound annual growth rate for the Chinese cosmetics products market size between 2014 and 2019 can reach 7.6%.

In 2015, the Chinese government increased decentralization efforts, improved financial support,

and strengthened incentives, which promoted and shaped a surge of public entrepreneurship and innovation; the transition to a trend of innovation-driven economic development was obvious. Supported by a series of innovative entrepreneurial activities and their results, new industries, new formats, and new products rapidly accelerated their growth and development. New industries grew quickly. New formats flourished in their developments. The annual online retail product sales volume grew by 31.6% compared to the previous year; its growth rate was faster than the total social consumer retail products sales by 20.9 percentage point, where usage commodities grew by 36%. The annual completed courier service volume was 20.67 billion packages and grew by 48%; the mobile Internet access traffic volume grew by 103%. New products continued to emerge.

The competition within the SPA chain stores and consumer products market is increasingly fierce. In a dispersed competitive market, a quality brand possesses a strong market appeal, and has more opportunities for market integration. At the same time, the franchise operations can be directly impacted by macroeconomic environment and consumer disposal income. Urbanization and public entrepreneurship guidance, the regional depth and width of the promotion and expansion of stores, and the development of e-commerce will be advantageous to eliminating regional limitations and expanding consumer groups, which will bring about more development opportunities for the Company. Traditional industries transitioning and upgrading, as well as above and below the line integrated marketing tactics, will further highlight the Company's unique competitive advantage of products with the services treatment combination and the follow-up advantage of 3C supplier brand.

## (2) Impact from Regulatory Environment:

China has established the following regulations targeting the skin care products production and manufacturing processes: "Hygienic Standard for Cosmetics", "Cosmetics Health Supervision Regulations", "Cosmetic Health Supervision Regulations Implementing Rules", "Industrial Production Authorization Regulations", "Domestic Non-special Purpose Cosmetics Record Management Method", and "Cosmetics Labels Instructions Management Regulations". For the franchise industry, numerous laws and regulations, such as the "Commercial Franchise Administration Regulations", have been established; businesses must apply for and receive many legal and valid licenses and permits, in order to operate skin care products manufacturing and franchise businesses in China. The obtaining of relevant licenses in accordance to the laws and regulations has huge impacts on the business operation for the Company. However, as of the date of printing of this annual report, the Company has always and successfully obtained the licenses and permits the Company requires for business operations and got an update as it pertains to these matters.



## II. Company Introduction

### i. Date of Establishment: July 3, 2012

### ii. Company and Group History

Year	Major Events in the Company and Group History
1989	“CHLITINA” was established in Taiwan.
1997	CHLITINA was established in Shanghai to officially entered China Market.
1999	The first CHLITINA flagship store was opened on Huaihai Road in Shanghai.
2002	CHLITINA established a Shanghai training center that provides assorted professional courses.
2003	The advanced production equipment and rigorous scientific production quality control led SongJiang factory to successfully pass “Cosmetic Good Manufacturing Practice (GMP) “by UK accreditation service, Intertek Testing Service Ltd., Shanghai and receive ISO9001 from International United Registrar of Systems (URS) and ISO9001 from Shanghai Audit Center of Quality System (SAC). The double certification is a rare feat for businesses in China.
2005	Broadened national market, with number of franchised stores reaching 2,000.
2006	Shanghai Yungji Trade Limited (Yungji Limited) was established, with number of franchised stores reaching 2,475.
2007	Chengdu CHLITINA regular chain store opened. Weishuo (Shanghai) Daily Necessities Company (WeiShuo Company) was established. CHLITINA International Limited was established.
2008	Dalian CHLITINA regular chain store opened. Centre de Recherche et de Developpement de CHLITINA FRANCE EURL was established to collaborate with French partner in research and development.
2009	Hong Kong CHLITINA International Limited was established. Weishuo Company officially went into production.
2011	“CHLITINA” and “克麗緹娜” received special honor as both English and Chinese names were listed in the “China Well Known Trademark” by Trademark Office of the State Administration for Industry & Commerce of the People’s Republic of China. CHLITINA Group was established.
2012	CHLITINA Intelligence Limited was established. CHLITINA received “Leading Brand Award” and “Most Influential Beauty Chain in 2012 Award” in the 17 <sup>th</sup> China Beauty Expo in Shanghai. (BVI) CHLITINA Holding Limited established in British Cayman Islands became the first

Year	Major Events in the Company and Group History
	<p>group organization to apply for securities exchange.</p> <p>Won “Asian Brand Award” and “The Most Potential Chain in China Award” from Chinese Association of Affiliate Industry (CAIA).</p> <p>CHLITINA won “Most Loved Brand by Women Award” in the 4<sup>th</sup> “Hers Quality Life Festival” hosted by <u>Urban Housewives</u> magazine.</p> <p>In the “Top 50 Growth Chain-Style Business in China Forum and Award Ceremony by cyzone.cn in 2012”, CHLITINA won the “Top 50 Growth Chain-Style Business in China Award” due to its brand reputation/popularity and growth potential (Franchise 50).</p> <p>Shanghai Yungji trade limited was renamed to CHLITINA (Shanghai) Trade Limited.</p> <p>CHLITINA Marketing Limited and its Taiwan branch were established.</p>
2013	<p>CHLITINA brand won “Asia’s Top 10 Brands with the Most Investment Values Award” in Asia Brand Association Annual Meeting and China Brand Ranking Ceremony.</p> <p>Weishuo Company won “Advance Business Award” from Songjian District People’s Government.</p> <p>In May, CHLITINA won “2013 Most Influential Venture Capital Brand Award” and “2013 Venture Capital Expo Gold Award” in “National Brand Franchise Expo.”</p> <p>In May, CHLITINA won “Top 10 Business Model Award” from <u>Beauty Salon</u> magazine.</p> <p>Also in May, CHLITINA received “Leading Brand Award” and “Most Brand Value Beauty Chain in 2013 Award” in the 18<sup>th</sup> China Beauty Expo in Shanghai.</p> <p>In Aug., CHLITINA won the “Top 50 Growth Chain-Style Business in China Award” from <u>cyzone.cn</u> magazine.</p> <p>In Nov., CHLITINA won “2013 Trusted Hairdressing and Beauty Brand Award” from Shanghai Municipal Commission of Commerce, <u>Shanghai Morning Post</u>, and Shanghai Business Association.</p> <p>On Nov. 27, CHLITINA were list on the Taiwan Stock Exchange (TWSE).</p>

Year	Major Events in the Company and Group History
2014	<p>In Jan., CHLITINA won “2013 7.6 Million <u>Metro Time</u> Readers’ the most Favorite Fashion Brand Award” in the Fashion City Light Ceremony.</p> <p>Also in Jan., CHLITINA E.P.O. Facial Cleaner won “2013 the most classic facial cleaning product” in the Fashion City Light Ceremony.</p> <p>In Feb., CHLITINA won “2013 China Charity Collective Award” in the 3<sup>rd</sup> China Charity Festival.</p> <p>Also in Feb., CHLITINA’s “Light up the Light” Project won “The best Charity Spirit Award” in the 3<sup>rd</sup> China Charity Festival in 2013.</p> <p>On March 3<sup>rd</sup>, CHLITINA launched “Women, Love Bravely” campaign for CHLITINA’s 25<sup>th</sup> anniversary.</p> <p>In May, CHLITINA won the “The Investors’ Most Favorite Brand Award” at the 15<sup>th</sup> China Venture Capital Fortune Making Expo in Shangdong.</p> <p>In June, CHLITINA E.P.O. Facial Cleaner won “2014 the Most Potential Venture Project Award” at 2014 the 20<sup>th</sup> Joining China Franchise &amp; China Venture Exhibition.</p> <p>Also in June, CHLITINA won “2014 The Best Brand Image Award” at the 3<sup>rd</sup> China Finance Summit.</p> <p>In Sep., CHLITINA won “2014 China Association of Fragrance Flavor and Cosmetic Industries Boutique Tour Special Contribution Award” and “China Association of Fragrance Flavor and Cosmetic Industries Business Leader Award.”</p> <p>Also in Sep., CHLITINA won “ 2014 The Most Fashionable Beauty Chain Award.”</p> <p>In Nov., CHLITINA won “2013 China Franchise Venture Contribution Award” and “2013 Top 120 of China Franchise” from China Chain Store &amp; Franchise Association.</p> <p>Also in Nov., CHLITINA won “Project Hope 25 Years Special Contribution Award” from China Youth Development Foundation.</p>
2015	<p>In Jan., CHLITINA Chairperson Ms. Pi-hua Joanna Chen received “2014 China Charity Character Award.”</p> <p>Also in Jan., CHLITINA won “2014 China Charity Collective Award.”</p> <p>In June, CHLITINA and Hubei TV collaborated on making TV show, “Perhaps Love,” the legendary journey of brave love.</p> <p>In July, CHLITINA launched “Beauty, Heath, Happiness” campaign in Xiamen.</p> <p>In Oct., CHLITINA was named “Taiwan’s Best 20 Global Brands” from Interbrand, the largest global brand-consulting firm.</p> <p>In Nov., CHLITINA Deluxe Renew Firming Cream won “The Best 4D Contour Award” in <u>Femina</u> Magazine’s blind tests.</p>

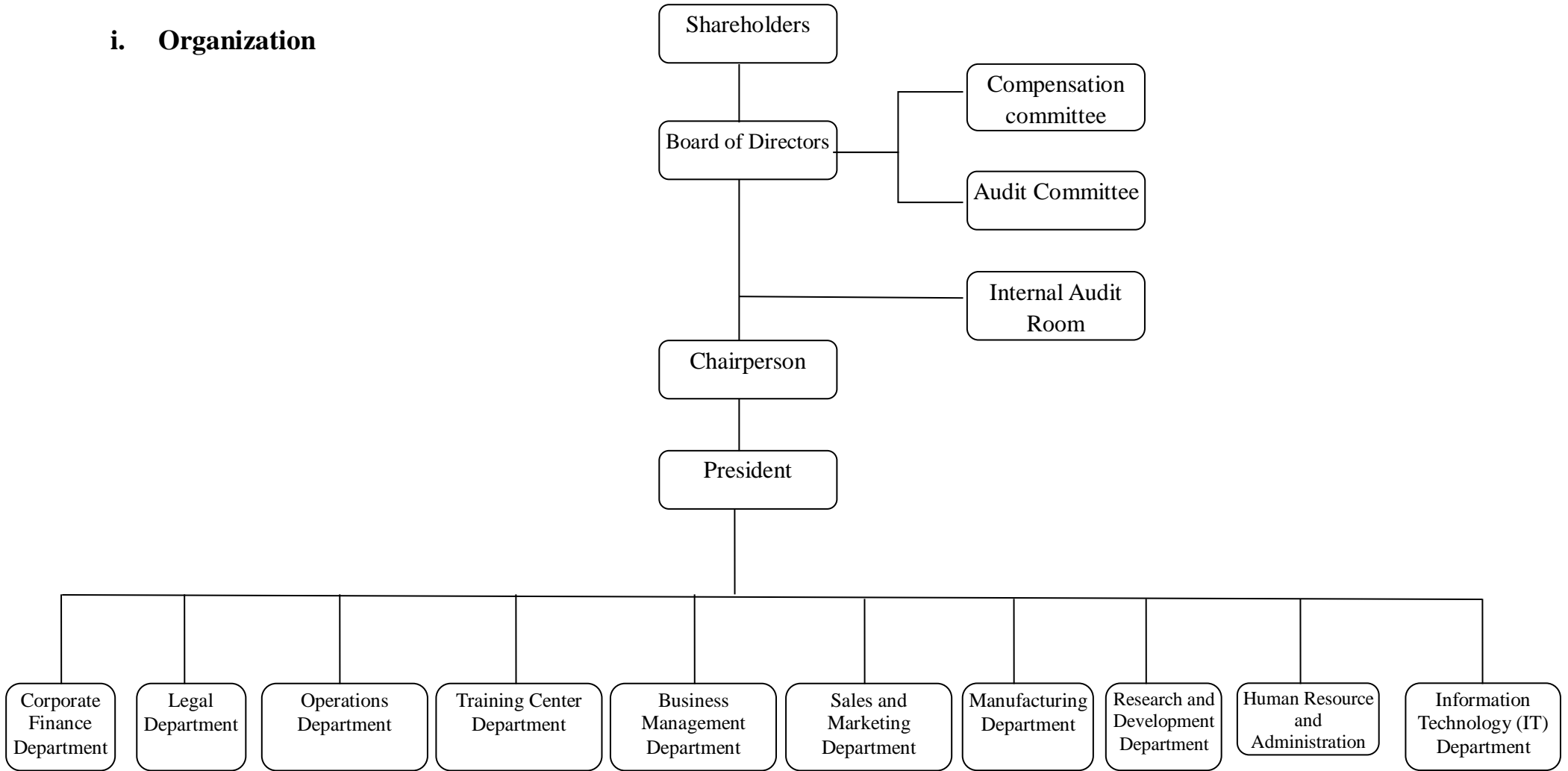
Year	Major Events in the Company and Group History
2016	<p>In Jan., CHLITINA CEO Ms. Pi-hua Joanna Chen received “2015 China Charity Character Award.”</p> <p>Also in Jan., CHLITINA won “2015 Responsible Brand Award.”</p> <p>In Mar., CHLITINA joined the 19<sup>th</sup> Shanghai International Film Festival as official organization partner.</p> <p>In Mar., CHLITINA and its spokesperson, A-Lin, launched “Cocoon” concept in a brand festival at the Shanghai Culture Square.</p> <p>Also in Mar., CHLITINA and Shanghai International Film Festival announced a global call for documentary films in the subject of “Women, Love Bravely.”</p>

**iii. Group Structure:** Please see the special note in the Chapter 8 of this annual report

**iv. Risks:** Please see the risks assessment and other important explanations in the Chapter 7 of this annual report

### III. Corporate Governance

#### i. Organization



Departments	Businesses
Corporate Finance Department	<ol style="list-style-type: none"> <li>1. Formulating the Group annual budget and account.</li> <li>2. Establishing and plan the Group tax policy.</li> <li>3. Executing accounting operation, billing, and financial planning.</li> </ol>
Legal Department	<ol style="list-style-type: none"> <li>1. Preventing legal risk, ensures legal operation, and establishing and maintaining good relationship between our company and related government legal department.</li> <li>2. Assisting management to control legal risks that could be encountered in company operation and providing legal advice.</li> </ol>
Operations Department	<ol style="list-style-type: none"> <li>1. Establishing operating procedures such as operating policy and performing interrelated practical direction, coordination, and supervision.</li> <li>2. In charge of setting up concrete measures for logistic distribution related operations and safety management, and be responsible for guidance and supervision in implementation.</li> <li>3. Responsible for all inventory storage management and ensuring supply distribution, transit, and delivery.</li> </ol>
Training Center Department	<ol style="list-style-type: none"> <li>1. Formulating and executing training strategy.</li> <li>2. Planning, arranging, and managing all activities in the Training Center.</li> </ol>
Business Management Department	<ol style="list-style-type: none"> <li>1. Formulating business development strategy based on company's development plan.</li> <li>2. Establishing CHLITINA franchise management system and formulating nationwide franchise join policy.</li> <li>3. Formulating business promotion incentive program.</li> </ol>
Sales and Marketing Department	<ol style="list-style-type: none"> <li>1. Making Internal publication, point of sale materials, and other graphic designs.</li> <li>2. Formulating nationwide brand promotion and planning marketing campaign.</li> </ol>
Manufacturing Department	<ol style="list-style-type: none"> <li>1. Managing manufacturing and subcontracting related business to meet annual production targets.</li> </ol>
Research and Development Department	<ol style="list-style-type: none"> <li>1. Promoting research and development capability and supporting pre-sale marketing development of new products.</li> <li>2. Formulating standard cost and achieves effective cost control; managing and maintains scheduled regulation business for products already on market; coordinating between new and old products.</li> </ol>
Human Resource and Administration Department	<ol style="list-style-type: none"> <li>1. Making human resources planning and establishing and executing personnel management policy.</li> <li>2. Establishing and executing administration and general affairs systems.</li> </ol>
Information	<ol style="list-style-type: none"> <li>1. Formulating reasonable IT department budget to properly furnish hardware and</li> </ol>

Departments	Businesses
Technology (IT) Department	<p>software for the Group.</p> <p>2. Establishing network system, application programs, business system for all branches.</p> <p>3. Establishing and executing Management Information System (MIS) to intergrade company's computerized management operation.</p>

## ii. Information of Directors, Supervisors, President, Vice President, Assistant President, Division Heads, and Branch Heads

### (1) Directors and Supervisors Information

Mar. 31, 2016 Unit: thousand share; %

Position (note 1)	Nationality or registered place	Name	Date Elected (note 1)	Term (note 1)	Date First Elected (note 1)	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Education & Past Positions	Current Positions at Other Companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
						Number of Shares	%	Number of Shares	%	Number of Shares	%	Numbe r of Shares	%			Position	Name	Relation- ship
Chairperson	R.O.C.	Pi-hua Joanna Chen	June 17, 2015	3 years	July 3, 2012	-	-	-	-	-	-	-	-	EMBA, Tongji University Ph. D of Keuka College, USA	note 3	Director	Chen, Pei-Wen	Sisters
Director	British Virgin IS.	Wealthy Garden Investment Limited	June 17, 2015	3 years	Aug. 23, 2012	28,056 (note 2)	35.29	28,056	35.29	-	-	-	-	-	-	-	-	-
	R.O.C.	Chen, Pei-Wen	June 17, 2015	3 years	June 17, 2015	-	-	-	-	-	-	-	-	MBA, US Seton Hall University-in studying Private Daren Girls' High School in Taipei-graduation	note 4	Director	Pi-hua Joanna Chen	Sister
Director	R.O.C.	Yi Zhu	June 17, 2015	3 years	Aug. 23, 2012	-	-	-	-	-	-	-	-	Dept. of Business Administration, Fu Jen Catholic University- graduation Regis University MBA, USA Harvard Business School - Advanced Management Program 1996 Estee Lauder Group First term President of Estee Lauder Group Founding director and honor director of Taiwan Cosmetics Industry Association	Alchemy Corporation USA - President Very Mulan Investment Co., Ltd. - Adviser Taiwan Clinical Oncology Research Foundation - Vice Chairperson	-	-	-



Director	Mainland China	Sizong Wu	June 17, 2015	3 years	Aug. 23, 2012	-	-	-	-	-	-	-	-	-	Master of Economics, Shanghai University of Finance and Economics Professor of Jiangxi University of Finance and Economics	Professor, School of Economy and Management, Tongji University Independent Director of Top Spring International Holdings Limited	-	-	-
Director	R.O.C.	Chung-Teh Lee	June 17, 2015	3 years	June 19, 2014	-	-	-	-	-	-	-	-	-	LLM, JD of School of Law, University of California, Berkeley Bachelor of Laws, National Taiwan University	Lee, Tsai & Partners/Chaired Partnership Lawyer Director of Taiwan Foundation For Rare Disorders Member of 10th Coordination Committee, Bureau of High Speed Rail, Ministry of Transportation and Communications Director of Cleaner Production & Regional Development Foundation Ching Chu Co., Ltd./Chairperson	-	-	-

Independent Director	R.O.C.	Yuqin Cai	June 17, 2015	3 years	Aug. 23, 2012	-	-	-	-	-	-	-	-	-	Doctor, School of Accounting, Shanghai University of Finance and Economics Master, College of Accounting, National Chengchi University Director of Audit Dept., KPMG Assistant Professor, Dept. of Accounting, China University of Technology Passing High Level CPA Civil Test	Supervisor of Nichidenbo Corporation Supervisor of Tong Hsing Electronic Industries, Ltd. Independent Director of Mag. Layers Scientific Technics Co., Ltd. Mag. Layers Scientific Technics Co., Ltd. -Member of Remuneration committee ITEQ CORPORATION-Member of Remuneration committee Assistant Professor, Dept. of Accounting, China University of Technology	-	-	-
Independent Director	R.O.C.	Pengwen Gao	June 17, 2015	3 years	Nov. 12, 2012	-	-	-	-	-	-	-	-	-	MBA, Duke University, USA - graduation Main Products CFO, Global FDP and CFO, Electronic Spare Parts, Asia-Pacific Area of Philips President and COO of Walsin Lihwa	Director of Jess Link Products Co., Ltd. Director of Very Mulan Investment Co., Ltd. Director of Hsing En Investment Limited	-	-	-

Independent Director	R.O.C.	Hongding Yu	June 17, 2015	3 years	Nov. 12, 2012	-	-	-	-	-	-	-	-	-	Dept. of Computer & Applied Sciences, Soochow University - graduation System Engineer, Products Manager and Business Manager of IBM Taiwan CEO, UNIX Server Products Div., IBM China CEO, MIDRANGER SERVER SYSTEM DIV., GREATER CHINA, IBM CHINA CEO, East and Central China, IBM China CEO, PRODUCTION, GREAT CHINA, IBM CHINA CEO, IBM Taiwan	-	-	-	-
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Note 1: Our company was established in British Oversea Territory Cayman Islands on July 3, 2012. Based on the Cayman Islands Company Act, an extraordinary shareholders' meeting was called on Aug. 23, 2012 to elect four directors. Also on Aug. 23, 2012, "Corporate Charter" and "Director Electing Procedure" were discussed and passed; then, another four directors were elected by accumulative voting on Nov. 12, 2012. The first term was from Nov. 12, 2012 to Aug. 22, 2015. In the shareholders meeting on June 17, 2015, directors were elected for the second term from June 17, 2015 to June 16, 2017. Our company appoints 8 directors, and three of them are independent directors.

Note 2: Our company capital was NTD20,000 thousand when the company was established on July 3, 2012. In the extraordinary shareholders' meeting on Aug. 23, 2012, capitalization of capital reserves was passed. All shareholders increase shareholdings based on their shareholding ratio. In the regular shareholders' meeting on June 19, 2014, capitalization of profits was passed. All shareholders increase shareholdings based on their shareholding ratio on the ex-right day.

Note 3: Director of (BVI) Chlitina Group Limited, (BVI) Chlitina International Limited, (BVI) Chlitina Intelligence Limited, Centre de Recherche et de Developpement de CHLITINA FRANCE EURL, Hong Kong Chlitina International Limited, (BVI) Chlitina Marketing Limited, (BVI) Wealthy Garden Investment Limited, (BVI) J&R International Holding Limited, (BVI) Pure Sky International Limited, Dida Business Administration Consultant Limited, Hsin Ke Biochemical Technology Co., Ltd., San Yen So International Co., Ltd., Chlitina Trade Limited, (BVI) Desheng Global Limited, Shanghai Cheng Yang Trading Co., Ltd., (BVI) W-Amber International Limited, (BVI) W-Amber Marketing Limited, Hong Kong Crystal Asia International Limited, and Beijing Yu Chia Cheng Yueh Investment & Management Limited. Besides, also serves Executive Director of Chlitina (Shanghai) Trade Limited, Weishuo (Shanghai) Daily Product Limited, Weihu (Shanghai) Trade Limited, Wuguan (Shanghai) Trade Limited, Manager of Branch of British Virgin IS., Chlitina Marketing Limited, Taiwan Branch and Manager of Branch of British Virgin IS., Chlitina Intelligence Limited, Taiwan Branch.

Note 4: Director of San Yen So International Co., Ltd., TuTu& Bow International Limited, Alexander Health Club (Shanghai), Alexander Health Club (Beijing), Chairperson of Alexander Health Club (Beijing-Dongzhimen), Kelti International Trade Co., Ltd., Charming Biotech Corporation, Dida Business Administration Consultant Company, Min Shang Trade Co., Ltd., Jishda Commercial Technology Co., Ltd., Action LIFE, Chlitina Trade Limited, J&V Global Limited, TuTu& Bow International Limited, FORTUNE RADIANCE INVESTMENT LIMITED. Supervisor of Chaoneng Biochemical Technology Co., Ltd., Global Interactive Marketing Co., Ltd., Hsin Ke Biochemical Technology Co., Ltd., Gin Yong Ji Co., Ltd., Life Abundance Investment Co., Ltd., Kelti (China) Daily Product Co., Ltd., Jin Yen (Shanghai)Biotech Co., Ltd., Zhaocang (Shanghai) Trading Co., Ltd., Supervisor of Crystal Asia (Shanghai) Trade Limited.

## Major Shareholders of Important Corporate Shareholders

Mar. 31, 2016

Corporate Shareholders (note 1)	Major Shareholders of Corporate Shareholder (note 2)
Wealthy Garden Investment Limited	Best Honour Development Limited (55%) De Sheng Global Limited (9%) Fortune Radiance Holdings Limited (9%) Yong Shun Group Limited (9%) Fortune Radiance Investment Limited (9%) Smart Fortune Asia Limited (9%)

Note 1: Those directors and supervisors who are corporate shareholder representatives shall fill in the name of the corporate shareholders they represent.

Note 2: When filling in the names and respective shareholder ratios of the major shareholders (the top 10 shareholders of the corporate shareholder in terms of their shareholding ratios) of the corporate shareholder in question, if the major shareholder is an institutional investor, the table 2 below shall be filled out.

## Representatives of Major Shareholders of Important Corporate Shareholders:

Mar. 31, 2016

Corporate Shareholders (note 1)	Principal Shareholders of Corporate Shareholder (note 2)
Best Honour Development Limited (55%)	Chen, Wu-Kang (100%)
De Sheng Global Limited (9%)	Pi-hua Joanna Chen (100%)
Fortune Radiance Holdings Limited (9%)	Chen, Le-Wei(100%)
Yong Shun Group Limited (9%)	Chen, Szu-Fan (100%)
Fortune Radiance Investment Limited (9%)	Chen, Pei-Wen (100%)
Smart Fortune Asia Limited (9%)	Chen, Chao-Ching (100%)

## Directors and Supervisors Information (2)

Mar. 31, 2016

Name (note 1)	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Qualification(note 2)										Number of other public companies concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	
Pi-hua Joanna Chen	-	-	V	-	-	-	-	-	-	V	-	V	V	-
Chen, Pei-Wen	-	-	V	-	-	-	-	-	-	V	-	V	-	-
Yi Zhu	-	-	V	V	-	V	V	V	V	-	V	V	V	-
Sizong Wu	V	-	V	V	-	V	V	V	V	V	V	V	V	1(note 3)
Chung-Teh Lee	-	V	V	V	V	V	V	V	V	V	V	V	V	-
Yuqin Cai	V	V	V	V	V	V	V	V	V	V	V	V	V	1
Pengwen Gao	-	-	V	V	V	V	V	V	V	V	V	V	V	-
Hongding Yu	-	-	V	V	V	V	V	V	V	V	V	V	V	-

Note 1: the number of spaces is adjusted according to the actual number.

Note 2: For those directors and supervisors meeting the following terms two years prior to be elected and during their term in office, a “✓” is put in the space under the applicable term.

1. Not the Company’s employee, or employee of the Company’s affiliated companies.
2. Those who are not a director or supervisor of the Company or its affiliated companies (however, it is not limited to the independent director of the Company or its parent company or the subsidiary in which the Company directly or indirectly holds more than 50% of its voting shares).
3. The natural-person shareholder who does not hold more than 1% of the total outstanding stocks in their name or the name of their spouse, their minor children or others, or the shares held in their name or the name of their spouse, their minor children or others do not make them one of the Company’s top ten shareholders.
4. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the

previous 3 paragraphs.

5. Neither an employee, a director, nor a supervisor of corporate shareholders directly holding shares more than 5% of the total outstanding stocks; neither nor of the Company's top five shareholders, supervisors and employees.
  6. Neither a director, supervisor, manager, nor shareholder holds over 5% shares of a company or institution that is financing or doing business with the Corporation.
  7. The professional, proprietor of the sole proprietorship, partnership, company or institute, partner, director, supervisor, manager and their spouse who does not provide services or consultation for the Company or its affiliated enterprises in the sectors of business, legal affairs, finance and accounting, etc. However, it is not limited to the Remuneration Committee members prescribed by Article 7 of the Regulations 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.
  8. Those who do not have the spouse relationship or are not within the 2nd level of kinship with any other directors.
  9. Those who are not subject to any of the conditions listed in Article 30 of the Company Act.
  10. Those who are not in the circumstance regulated in Article 27 of the Company Act where the government agency, corporate shareholder or their representative is elected.
- Note 3: Mr. Sizong Wu serves as an independent director in privately held company.

## (2) Information of President, Vice President, Assistant President, Division Heads, and Branch Heads

Mar. 31, 2016 Unit: thousand share

Position	Nationality	Name	Date of Appointment	Shareholding		Spouse and Minor Shareholding		Shareholding under the title of a 3rd party		Education & Past Positions	Current Positions at Other Companies	Spouse or 2nd level kin holding manager		
				Number of Shares	%(%)	Number of Shares	%(%)	Number of Shares	%			Title	Name	Relationship
President	R.O.C.	Pi-hua Joanna Chen	May 1, 2015	-	-	-	-	-	-	EMBA, Tongji University Ph. D of Keuka College, USA	note	-	-	-
President of Manufacturing	R.O.C.	Pan, Chung-Cheng	May 8, 2015	-	-	-	-	-	-	(Graduate School) EMBA, Business Administration Section, National Chengchi University Bachelor of Commerce, Dept. of Accounting, Soochow University	note	-	-	-
CFO of Financial & Accounting Dept.	Mainland China	Hu, Hui	Dec. 26, 2009	-	-	-	-	-	-	Dept. of Accounting, Shanghai University of Finance and Economics Master of Business Administration, Shanghai University of Finance and Economics Financial Director of Kelti (China) Daily Product Co., Ltd.	note	-	-	-
Vice President of Business Training Dept.	R.O.C.	Yeh, Mei-Feng	Dec. 26, 2009	-	-	-	-	-	-	Dept. of Economic Management, Huazhong University of Science and Technology Vice CEO, Technology Dept. of Kelti (China) Daily Product Co., Ltd.	note	-	-	-
Vice President of Legal Dept.	Mainland China	Wang, Yu-Hsia	Mar. 26, 2011	-	-	-	-	-	-	CEO of United States Cellular Corporation, China Director & Vice Chairperson of For You Healthware Technology Co., Ltd.	note	-	-	-

Note: Current Positions at the Company and Other Companies for President, Vice President, Assistant President, Division Heads, and Branch Heads:

Title	Name	Current Positions at the Company (Including Group's company)	Current Positions at Other Companies (i.e., company excluding from the Group)
President	Pi-hua Joanna Chen	(BVI) Chlitina Group Limited - Director (BVI) Chlitina International Limited - Director (BVI) Chlitina Intelligence Limited - Director Centre de Recherche et de Developpement de CHLITINA FRANCE EURL -Director Hong Kong Chlitina International Limited - Director (BVI) Chlitina Marketing Limited - Director Chlitina (Shanghai) Trade Limited - Executive Director Weishuo (Shanghai) Daily Product Limited - Executive Director (BVI) W-Amber International Limited -Director (BVI) W-Amber Marketing Limited - Director Hong Kong Crystal Asia International Limited - Director Beijing Yu Chia Cheng Yueh Investment & Management Limited - Director Weihu (Shanghai) Trade Limited - Executive Director Wuguan (Shanghai) Trade Limited – Executive Director British Virgin IS. Chlitina Marketing Limited Taiwan Branch - Branch Manager British Virgin IS., Chlitina Intelligence Limited, Taiwan Branch- Branch Manager	(BVI) Wealthy Garden Investment Limited (BVI) J&R International Holding Limited (BVI) Pure Sky International Limited Dida Business Administration Consultant Limited Hsin Ke Biochemical Technology Co., Ltd. San Yen So International Co., Ltd. Chlitina Trade Limited (BVI) Desheng Global Limited Shanghai Cheng Yang Trading Co., Ltd.
President of Manufacturing	Pan, Chung-Cheng	Weishuo (Shanghai) Daily Product Limited -President of Manufacturing British Virgin IS. Chlitina Marketing Limited Taiwan Branch -President of Manufacturing Wuguan (Shanghai) Trade Limited - President of Manufacturing Hong Kong Chlitina International Limited - President of Manufacturing	Zhaocang (Shanghai) Trading Co., Ltd. - President of Manufacturing Kelti (China) Daily Product Co., Ltd. - President of Manufacturing Jin Yen (Shanghai)Biotech Co., Ltd. - President of Manufacturing



CFO of Financial & Accounting Dept.	Hu, Hui	Hong Kong Chlitina International Limited - CFO Chlitina Marketing Limited - CFO Chlitina (Shanghai) Trade Limited - CFO Weishuo (Shanghai) Daily Product Limited - CFO Wuguan (Shanghai) Trade Limited - CFO Beijing Yu Chia Cheng Yueh Investment & Management Limited Director	None
Vice President of Business Training Dept.	Yeh, Mei-Feng	Chlitina (Shanghai) Trade Limited - Vice President	None
Vice President of Legal Dept.	Wang, Yu-Hsia	Chlitina (Shanghai) Trade Limited - Vice President Weishuo (Shanghai) Daily Product Limited - Vice President	None

### iii. Remuneration of Directors, Supervisors, President and Vice Presidents in recent years

#### 1. Remuneration of Director (Including Independent Director)

Dec. 31, 2015; Unit: NTD 1,000

Title	Name	Remuneration of Directors								Remunerations Earned as Employee of the Group and affiliates										(%)% of the total amount A, B, C, D, E, F and G to the after-tax net profit		Other remunerations from non-Salary subsidiary affiliates				
		Salary(A)		Pension(B)		Remuneration of Directors (C)		Professional fees (D)		% of the total amount A, B, C and D to the after-tax net profit		Salary, bonus, special expenditures and etc. (E)		Pension (F)		Employee remuneration (G)							Employee Option (H)		Granted Employee Restricted Stock (I)	
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Group		All companies in the financial report		The Company	All companies in the financial report		The Company	All companies in the financial report	The Company	All companies in the financial report
Chairperson	Pi-hua Joanna Chen																									
Director	Wealthy Garden Investment Limited Representative: Chen, Le-Wei (note 1)																									
	Representative: Chen, Pei-Wen (note 2)																									
Director	Yi Zhu																									
Director	Sizong Wu																									
Director	Chung-Teh Lee																									
Independent Director	Yuqin Cai																									
Independent Director	Pengwen Gao																									
Independent Director	Hongding Yu																									

Note 1: Corporate representative and director, Mr. Chen, Le-Wei, vacated the position after the end of the first term and general reelection on June 17, 2015.

Note 2: Corporate representative and director, Chen, Pei-Wen, was elected in the second board of directors on June 17, 2015.

**Table of Range of the Remunerations**

Dec. 31, 2015

Range of the Remunerations paid to each Director of the Corporation	Name of Directors			
	Sum of the 4 Remunerations (A+B+C+D)		Sum of the 7 Remunerations (A+B+C+D+E+F+G)	
	The company	All companies in the Consolidated financial report I	The company	All companies in the Consolidated financial report J
Less than NTD2,000,000		Chen, Le-Wei, Chen, Pei-Wen, Yi Zhu, Sizong Wu, Chung-Teh Lee, Hongding Yu, Pengwen Gao, Yuqin Cai		Chen, Le-Wei, Chen, Pei-Wen, Yi Zhu, Sizong Wu, Chung-Teh Lee, Hongding Yu, Pengwen Gao, Yuqin Cai
NTD2,000,000(incl.)~NTD5,000,000(excl.)				
NTD5,000,000(incl.)~NTD10,000,000(excl.)				
NTD10,000,000(incl.)~NTD15,000,000(excl.)		Pi-hua Joanna Chen		Pi-hua Joanna Chen
NTD15,000,000(incl.)~NTD30,000,000(excl.)				
NTD30,000,000(incl.)~NTD50,000,000(excl.)				
NTD50,000,000(incl.)~NTD100,000,000(excl.)				
Over NTD100,000,000				
Total		9 Persons		9 Persons

2 Remuneration of Supervisors: Not applicable

### 3. Remuneration Paid to President and Vice Presidents

Dec. 31, 2015 Unit: NTD 1,000

Title	Name	Salary (A)		Pension (B)		Bonus, special expenditures, etc. (C)		Employee bonus amount from earnings distribution (D)				(% )% of the total amount A, B, C and D to the after-tax net profit		Employee Option		Granted Employee Restricted Stock		Other remunerations from non-Salary subsidiary affiliates	
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Group		All companies in the financial report		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report		
								Cash bonus amount	Stock bonus amount	Cash bonus amount	Stock bonus amount								
President	Yu, Ching-Lun (note 1)																		
Vice President of Financial & Accounting Dept.	Hu, Hui																		
Vice President of Business Training Dept.	Yeh, Mei-Feng	23,375		404		4,905			659			2.51%							
Vice President of Training Center	Yeh, Ting-Ku (note 2)																		
President of Manufacturing	Pan, Chung-Cheng																		
Vice President of Legal Dept.	Wang, Yu-Hsia																		

Note 1: President Mr. Yu, Ching-Lun resigned on Apr. 30, 2015; the Chairperson, Ms. Pi-hua Joanna Chen started to concurrently serve as president on May 1, 2015.

Note 2: Vice president of training center, Mr. Yeh, Ting-Ku resigned on Aug. 17, 2015.

## Table of Range of the Remunerations

Dec. 31, 2015 Unit: NTD 1,000

Range of the Remunerations paid to each President and Vice Presidents of the Corporation	Name of President and Vice Presidents	
	The Company	All companies in the Consolidated financial report (E)
Less than NTD2,000,000	-	Yeh, Ting-Ku
NTD2,000,000(incl.)~NTD5,000,000(excl.)	-	Wang, Yu-Hsia, Hu, Hui, Pan, Chung-Cheng
NTD5,000,000(incl.)~NTD10,000,000(excl.)	-	Yeh, Mei-Feng, Yu, Ching-Lun
NTD10,000,000(incl.)~NTD15,000,000(excl.)	-	
NTD15,000,000(incl.)~NTD30,000,000(excl.)	-	
NTD30,000,000(incl.)~NTD50,000,000(excl.)	-	
NTD50,000,000(incl.)~NTD100,000,000(excl.)	-	-
Over NTD100,000,000	-	-
Total	-	6 persons

### 4. Employees' bonus paid to Managers

Dec. 31, 2015 Unit: NTD 1,000

	Title (note 1)	Name (note 1)	Stock bonus amount	Cash bonus amount	Total	(%)% of the total amount to the after-tax net profit
Managers	Vice President of Business Training Dept.	Yeh, Mei-Feng				0.06%
	President of Manufacturing	Pan, Chung-Cheng		659	659	
	CFO of Financial & Accounting Dept.	Hu, Hui				
	Vice President of Legal Dept.	Wang, Yu-Hsia				

(4) Elaboration on the analysis of the ratio of the total amount of the remuneration paid to the Company's directors, supervisors, president and vice president over the past two years as shown in the Company's and its consolidated statements to the after-tax net profit from single or individual financial reports and explanation of the Company's remuneration payment policy, standard and

combination, its procedure to set up remuneration standards and the correlation between its business performance and future risks.

1. The ratio of the total amount of the remuneration paid to the Company’s directors, supervisors, president and vice president over the past two years to the after-tax net profit.

Unit: NTD 1,000

Item	2014		2015	
	Amount	%	Amount	%
Directors	19,325	2.56	26,857	2.30
President and Vice Presidents	34,705	4.59	29,343	2.51
Consolidated Gross Net Profit	755,837	100	1,167,087	100

2. Remuneration payment policy, standard and combination, the procedure to set up remuneration standards and the correlation between the business performance and future risks

- A. Based on the June 19, 2014 Articles of Incorporation amendments Article 64 and Article 91, directors can receive different compensation. Regardless of the company profits or losses, company must compensate directors based on: (a) involvement of company operation; (b) contribution value to the company; (c) average pay in the industry; (d) suggestions by Remuneration Committee; (e) other related factors. Moreover, when the company achieves profits for the year, tax should be paid or set-aside first to makeup for the previous losses. Next, legal surplus reserves and special surplus reserves should be set-aside. If there is still any profit left, it’s the “Distributable earnings of the year,” which is added to the undistributed surplus from the previous year. This amount can be distributed by ordinary resolution in the shareholders’ meeting. The upper limit of director compensation is 3% of the Distributable earnings.
- B. Renunciation of President and vice president: To be paid according to their post, seniority, performances, and contribution to the Company and by referring to the level of the pay adopted by the peer companies.

#### **iv. Corporate Governance**

##### **(1) Operation of the Board of Directors**

From the most recent fiscal year (2015) up to the date of this prospectus publication, there were 13 board-of-directors meetings (A), 9 in 2015 and 4 in 2016. The director attendances are as follow:

Title	Name	Number of times of actual attendance (B) (Note)	Number of times of attendance by authorized	Ratio of actual attendance (%) (B/A)	Remarks
Chairperson	Pi-hua Joanna Chen	13	0	100.00	Elected for the second term director on June 17, 2015
Director	Wealthy Garden Investment Limited (Representative: Chen, Le-Wei)	2	1	66.67	Mr. Chen, Le-Wei was elected for the first term director on Aug. 23, 2012; as representative on Nov. 5, 2012; vacated position after the election on June 17, 2015.
	Wealthy Garden Investment Limited (Representative: Chen, Pei-Wen)	9	1	90.00	Elected for the second term director on June 17, 2015
Director	Yi Zhu	9	4	69.23	Elected for the second term director on June 17, 2015
Director	Sizong Wu	8	4	61.54	Elected for the second term director on June 17, 2015
Director	Chung-Teh Lee	8	4	61.54	Elected for the second term director on June 17, 2015
Independent Director	Yuqin Cai	13	0	100.00	Elected for the second term director on June 17, 2015
Independent Director	Pengwen Gao	11	2	84.62	Elected for the second term director on June 17, 2015
Independent Director	Hongding Yu	12	1	92.31	Elected for the second term director on June 17, 2015
Other matters required to be recorded:					
(1) For the matters listed in article 14-3 of the Securities and Exchange Act along with the resolution items of the board of directors for which independent directors had opposed or qualified opinions either on the record or in a written statement, the board meeting date, term, bill content, the opinions from all the independent directors and the Company's handling of independent directors' opinions shall be described: none					

Title	Name	Number of times of actual attendance (B) (Note)	Number of times of attendance by authorized	Ratio of actual attendance (%) (B/A)	Remarks
<p>(2) For execution of the recusal from directors for conflict of interest bills, the director's name, bill content, the reason for entering recusal and resolution participation status shall be described: none</p> <ol style="list-style-type: none"> <li>Our company has established "board of directors' meeting management measures," in which the Article 22 states that when director or his/her representative has conflict of interests with the discussed subjects, the said or his/her representative should explain the essence of the conflict in the meeting and cannot join the discussion and cast any vote. In fact, the said director or his/her representative cannot be present during the discussion and voting or represent other director in voting.</li> <li>From the most recent fiscal year (2015) up to the date of this prospectus publication, there was no conflict of interests issue present in any discussion.</li> </ol> <p>(3) Goals to enhance the Board of Directors for the current year or recent years (such as establishment of the audit committee to enhance information transparency, etc.) and assessment of the implementation status:</p> <ol style="list-style-type: none"> <li>The establishment of functional committees of board: Three independent directors are in audit committee and Remuneration Committee. The independent directors were first selected on Aug. 31, 2012, and the second term was reelected on June 17, 2015. The convener of audit committee is Ms. Yuqin Cai who received Ph.D. in accounting from Shanghai University of Finance and Economics. The convener of Remuneration Committee is Ms. Pengwen Gao.</li> <li>Transparency and disclosure of information: Our Company is capable to prepare quarterly and annual financial statements, which are inspected/audited and certified by KPMG Accounting Firm. To comply with the disclosure regulation, our company discloses information on Market Observation Post System. Our company also discloses relevant business information on official company website in (tradition Chinese/simplified Chinese/English) under "Investment News" for shareholders and interest parties.</li> </ol> <p>(4) Note: Corporate representative director, Chen, Le-Wei vacated the director position after the end of first term on the reelection day on June 17, 2015. During the first term, Mr. Chen participated three board-of-directors meetings in 2015. The rest of directors (including independent directors) also participated three board-of-directors meetings in 2015 and were reelected for a second term from June 17, 2015 to June 16, 2017.</p>					

## (2) Operation of audit committee

From the most recent fiscal year (2015) up to the date of this prospectus publication, there were 12 (A) audit committee meetings, 8 in 2015 and 4 in 2016. The attendances of the independent directors are as follow:

Title	Name	Number of times of actual attendance (B)(Note)	Number of times of attendance by authorized	Ratio of actual attendance (%) (B/A)	Remarks
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Independent Director	Yuqin Cai	12	0	100.00	Elected for the second term director on June 17, 2015
Independent Director	Hongding Yu	11	1	91.67	Elected for the second term director on June 17, 2015
Independent Director	Pengwen Gao	11	1	91.67	Elected for the second term director on June 17, 2015

Other matters required to be recorded:

- (1) For the matters listed in Article 14-5 of the Securities and Exchange Act and the resolutions which were not adopted by the audit committee but approved by more than two-thirds of the entire body of directors, the audit committee date, term, bill content, audit committee's resolution results, and the Company's handling of the audit committee's opinions: None.
- (2) For execution of independent director's recusal for conflict-of-interest bills, the independent director's name, bill content, the reason for entering recusal and resolution participation status shall be described: None
- (3) Status of the communication of independent directors with the internal audit supervisor and CPAs (e.g. the matters, methods and results of the communication for the Company's financial and business status): After establishment of the audit committee on Aug. 31, 2012, our company had been amended procedures for acquisition or disposal of assets, procedures for loaning capital to others, procedures for endorsement and guarantee. All amendments have been approved by the audit committee. Moreover, our company's internal auditor's reports to the independent directors about annual internal audit program from time to time. The internal auditor needs to attend and report in audit committee meeting held at least once a quarter. Up to the date of this prospectus publication, there is no significant deficiency in internal audit program and no related financial deficiencies that have not been improved.
- (4) Note: All committee members automatically retained the position at the end of the first term of the committee and the director reelection. The first committee held 2 audit committee meetings in 2015. The second committee elected Ms. Yuqin Cai to be the convener of audit committee. The term of the second audit committee is from June 17, 2015 to June 16, 2017.

**(3) Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons**

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
1. Has the Company set up and disclosed its corporate governance best practice principles in accordance with the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	V		The Company has already set up its “Corporate Governance Best Practice Principles” in accordance with the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”, and disclosed them on the Market Observation Post System.	none
2. The company’s equity structure and shareholders’ equity (1) Has the Company set up its internal operation procedure to handle shareholders’ recommendation, release their doubts, solve any arising disputes and take care of litigation issues, and followed the procedure to do the implementation?	V		(1) The Company has already covered the operation procedure for handling shareholders’ recommendations, doubts and disputes and litigation affairs in its “Corporate Governance Best Practice Principles “, and set up the litigation and non-litigation agent, spokesperson, deputy spokesperson and stock affairs related units to have dedicated personnel handle relevant matters. At the same time, the Company shall coordinate relevant units to execute the tasks as required.	none
(2) Has the status of the Company’s control of the name list of the major shareholders who actually control the Company, and the final controllers of the major shareholders?	V		(2) Provide the actual information through the stock affairs agency, routinely track the details every month and periodically disclose by law the shareholding status of its directors, managerial officers and the major shareholders holding more than 10% of the Company’s shares. In addition, the Company has also adequately	none

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
			controlled the name list of the major shareholders and the final controllers of the major shareholders.	
(3) Has the Company established and executed its risk control and fire wall mechanism with its affiliated enterprises?	V		(3) The Company has already instituted the “Management Regulations Governing Transactions with Related Parties”, and has established and executed the mechanism of risk control and fire wall with its affiliated enterprises, in which financial independence is the principle for the Company’s business relationship with its affiliated enterprises.	None
(4) Has the Company set up any internal rules to prohibit the Company’s personnel from trading securities according to the information undisclosed in the Market?	V		(4) The Company has already set up the “Management Regulations for Prevention of Insider Trading” to specifically prohibit the Company’s personnel from trading securities according to the information undisclosed in the market.	none
3. Constitution and duties of the board of directors: (1) Has the board of directors had any diversification plan for the constitution of its members and has it carried out the diversification?	V		(1) The Company’s directors all have varying kinds of expertise in respective fields, so they can provide diversified recommendations for the Company’s development and operating.	none
(2) Other than establishing the Remuneration Committee and audit committee by law, Has the Company also voluntarily set up other kinds of functional committees?		V	(2) Other than establishing the remuneration committee and audit committee by law, the Company’s remaining governance operation is taken care of by other departments according to their respective power and authority, for which no other functional committees are set up. In	As explained in the left column

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
			the future, the Company will assess the necessity and establish any functional committee if required.	
(3) Has the Company set up the regulations governing performance evaluation of the board of directors? What is the evaluation method? and whether the performance evaluation is annually and periodically conducted?		V	(3) The Company has yet to set up the regulations for evaluating performance of the board of directors and determine the evaluation method. In the future, the regulations shall be instituted if required	As explained in the left column
(4) Has the Company periodically evaluate the independence of its CPA(s)?	V		(4) As stipulated, the Company evaluates the independence of its CPA(s), and acquires the CPA's independence statement every year. The evaluation results are submitted to the board of directors for resolution.	none
4. Has the Company set up any channels to communicate with its stakeholders, established a stakeholder exclusive area on the Company's website, and properly responded to the important issues of corporate social responsibility concerned by stakeholders?	V		(1) The Company has a spokesperson and a deputy spokesperson, and any related information has been announced on the Market Observation Post System as stipulated, whereas it has also established a stakeholder exclusive area to respond to a variety of issues put forth by stakeholders in a timely way. (2) The Company has set up the hotlines and e-mail address as the channels to communicate with its employees. It has also periodically made account reconciliation with its suppliers, so as to keep abreast of the transactions with its suppliers. In addition, it has set up a dedicated unit to keep good communication with its suppliers. (3) The Company has the customer service	none

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
			hotline. It is taken charge by a dedicated unit to keep good communication with consumers.	
5. Has the Company commissioned its shareholder meeting affairs to a professional stock affairs service agency?	V		The Company has commissioned the stock affairs service division of Fubon Securities Co., Ltd. to represent the Company to handle a variety of the Company's stock affairs.	none
6. Information publication (1) Has the Company set up its website and disclosed its financial, business and corporate governance information?	V		(1) The Company has announced and declared its financial business and corporate governance affairs by law and simultaneously disclosed them on the Market Observation Post System.	none
(2) Has other information disclosure methods adopted by the Company? (E.g. set up an English website, designate dedicated personnel to collect and disclose information, fulfill the spokesperson system and post the proceeding of the institutional investor meeting on the Company's website, etc.)	V		(2) The Company has dedicated personnel to collect and release a variety of the Company's information, has followed the stipulation to configure a website to disclose the information reported by the spokesperson for future reference and announce institutional investor meeting related information. At the same time, an English website has also been set up.	none
7. Has other important information which may help understand the operation of corporate governance? (e.g. employee's rights and interests, employee care, investor relations, supplier	V		<u>Employee rights and interests and employee care</u> To protect its employee's rights and interests, other than the legal protection, the Company has also taken good welfare measures and had diversified interaction channels with its employees. The welfare	none

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
relations, the rights of interested parties, status of director and supervisor's advanced studies, execution of the risk management policy and risk measurement standard, execution of the customer policy, and liability insurance purchased by the Company for its directors and supervisors, etc.):			<p>measures are as follows:</p> <p>Insurance: group commercial insurance.</p> <p>Remuneration: performance bonus, employee's bonus, three major festival gifts (prizes) and year-end bonus.</p> <p>Welfare: employee birthday monetary gifts, wedding, funeral and birth allowances, year-end banquet activities and a friendly work environment for pregnant women.</p> <p>Health and sustainability: personnel division's dinner parties.</p> <p>Educational training: hold internal educational training, e.g. new entrant orientation training, pre-service educational training, on-the-job training, etc., and subsidize employees for external educational training, so as to encourage colleagues' advanced studies.</p> <p><u>Investor relations:</u> Disclose information on the Market Observation Post System or the corporate website, so investors can be fully aware of the corporate operating status. On the other hand, the Company has also maintains the relations with its investors via its shareholders' meetings, institutional investor meetings and the communication between its spokesperson and investors.</p> <p><u>Supplier relations:</u> With the principle of equality and reciprocation, the Company has established a partnership with its suppliers, so as to stabilize its supply chains.</p> <p><u>Interested parties' rights:</u> In terms of liability for its customers: The Company has provided safe and good quality products, valued the opinions from its customers and franchisees, and taken</p>	

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
			<p>immediate measures to handle customer complaints for franchisees, so as to satisfy requirements of respective sectors.</p> <p>In terms of liability for shareholders: One of the goals endeavored by the Company is to protect shareholders' maximum rights and interests.</p> <p><u>Status of directors' advanced studies:</u> The Company takes an aggressive attitude to encourage directors' advanced studies, and it has also invited professional agencies to provide professional courses in the Company.</p> <p><u>Status of managerial officers' advanced studies:</u> The Company takes the initiative to offer the information on advanced study courses to its managerial officers, helps arrangement of the courses, and opens its director advanced study program to its managerial officers.</p> <p><u>Status of execution of risk management policies and risk measurement standards:</u> The Company keeps an eye on the major risk items which can influence its operating, so as to ensure that all of the risks can be controlled under an acceptable scope.</p> <p><u>Status of execution of customer policies:</u> With the customer first operating philosophy, the Company insists on providing consumers and its franchisees with best products.</p> <p><u>Status of purchase of liability insurance for the Company's directors and supervisors:</u> The Company has currently purchased the liability insurance for its directors, supervisors and managerial officers.</p>	

Item	Implementation Status (note 1)			Variance from corporate governance best-practice principles for TWSE/GTSM listed companies and the reasons
	Yes	No	Summary	
8. Has the Company had any corporate governance self-evaluation report or the corporate governance appraisal report issued by a professional agency commissioned by the Company? (If yes, please provide the opinions of the board of directors, self-evaluation or outsourcing appraisal results, major defects or recommendations and improvement status)		V	The Company has referred to the corporate governance self-evaluation items for its management. However, it neither specifically produces its self-evaluation report, nor commissions a professional agency to issue an appraisal report. In the future, the Company will do the assessment and come up with a pertinent execution method in order to enhance its corporate governance execution effect.	As explained in the left column

Note 1: Whether check “Yes” or “No,” brief explanation is required in the provided space.

Note 2: So-called “corporate governance self-evaluation report” is a self- evaluation and explanation on company’s operation and execution.

**(4) In the case that the company has set up the remuneration committee, the organization, responsibilities and operations shall be disclosed:**

1. Composition of Remuneration Committee

Position	Criteria Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Qualification (note 2)								Number of other public companies concurrently serving as an independent director	Remarks (note 3)
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8		



Independent Director	Pengwen Gao	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Independent Director	Yuqin Cai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	Hongding Yu	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-

Note 1: Position should be “director,” “independent director,” or “others.”

Note 2: For those directors and supervisors meeting the following terms two years prior to be elected and during their term in office, a “✓” is put in the space under the applicable term.

1. Not the Company’s employee, or employee of the Company’s affiliated companies.
2. Those who are not a director or supervisor of the Company or its affiliated companies (however, it is not limited to the independent director of the Company or its parent company or the subsidiary in which the Company directly or indirectly holds more than 50% of its voting shares).
3. The natural-person shareholder who does not hold more than 1% of the total outstanding stocks in their name or the name of their spouse, their minor children or others, or the shares held in their name or the name of their spouse, their minor children or others do not make them one of the Company’s top ten shareholders.
4. Not the spouse, or the 2nd level kin or the 3rd level lineal relative of the parties mentioned in the previous 3 paragraphs.
5. Neither an employee, a director, nor a supervisor of corporate shareholders directly holding shares more than 5% of the total outstanding stocks; neither nor of the Company’s top five shareholders, supervisors and employees.
6. Neither a director, supervisor, managerial officer, nor shareholder holds over 5% shares of a company or institution that is financing or doing business with the Corporation.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultations to the company or to any affiliate of the company, or a spouse thereof; and
8. Not been a person of any conditions defined in Article 30 of the Company Act.

Note 3: If the member is a director, please explain if they comply with Paragraph 5 of Article 6 of the “Regulations 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”.

## 2. Duties of the Remuneration Committee

Duties of the Remuneration Committee should to exercise the due care of a good administrator to faithfully perform the following duties and make proposals to be discussed in the board-of-directors meetings:

- (1) Formulating and regularly reviewing performance evaluation and salary compensation policies, systems, standards, and structures for directors and managers.
- (2) Regularly reviewing directors' and managerial officers' salary and remuneration.

## 3. Operation status of the Remuneration Committee

- (1) The Company's Remuneration Committee has 3 members.
- (2) The term of this committee: June 17, 2015 to June 16, 2017. From the most recent fiscal year (2015) up to the date of this prospectus publication, there were 6 Remuneration Committee meetings, 4 in 2015 and 2 in 2016. The attendances of the committee members are as follow:

Title	Name	Number of times of actual attendance (B)	Number of times of attendance by authorized	Ratio of actual attendance % (B/A)	Remarks
Convener	Pengwen Gao	6	-	100.00	Independent Director
Member	Yuqin Cai	6	-	100.00	Independent Director
Member	Hongding Yu	6	-	100.00	Independent Director

### Other Required Notes for Remuneration Committee:

1. In the case that the board of directors does not adopt or modify the recommendations from the Remuneration Committee, the board meeting date, term, bill content, board meeting resolution results and the Company's handling of remuneration committee's opinions shall be described (if the remuneration adopted by the board of directors is better than what was recommended by the remuneration committee, the difference and reason shall be stated): Nil
2. For the resolutions adopted by the remuneration committee, if any of the committee members had opposed or qualified opinions either on the record or in a written statement, the remuneration committee meeting date, term, bill content, opinions from all the members and the Company's handling of the members' opinions shall be described: Nil
3. Note: All committee members automatically retained the position at the end of the first term of the committee and the director reelection. The first committee held one Remuneration Committee meeting in 2015. The second committee elected Ms. Pengwen Gao to be the convener of remuneration committee. The term of the second remuneration committee is from June 17, 2015 to June 16, 2017.

**(5) Social responsibility fulfillment status**

Item	Implementation Status(note 1)			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary (note 2)	
1. Implementation of Corporate Governance (1) Has the Company set up its corporate social responsibility policy and system to review the implementation effect?	V		(1) The Company has set up its "Corporate Social Responsibility Best Practice Principles", in order to aggressively carry out its corporate social responsibility to balance the environment and meet the global trends for the society and corporate governance development	none
(2) Has the Company periodically held social responsibility educational training?	V		(2) Through various meetings, the Company has persistently promoted its corporate management philosophy and social responsibility obligations.	none
(3) Has the Company set up a unit to exclusively or concurrently promote corporate social responsibility, for which the board of directors shall authorize the high-rank management to handle the related cases and report the handling status to the board of directors?	V		(3) Currently, the Company's corporate governance promotion panel is in charge of the promotion of corporate social responsibility, in which the board of directors has designated a convener and deputy convener to execute corporate social responsibility related affairs. The discovered issues shall be reported to the Chairperson, and the handling situation shall be reported to the board of directors at least once a year.	none
(4) Has the Company set up a reasonable remuneration policy, combined it with the employee performance evaluation policy and the corporate social responsibility policy and established a specific and effective reward and punishment	V		(4) The Company has set up its employee work rules (including remuneration and performance incentive regulations) to specifically define the remuneration and reward and punishment standards and share its profits with its employees, in the hope of a joint growth of the colleague remuneration and corporate operating and compliance	none

Item	Implementation Status(note 1)			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary (note 2)	
system?			with its corporate social responsibility.	
2. Development of a sustainable environment (1) Has the Company devoted to enhancement of utilization efficiency of various resources, and the Company's use of the renewable materials having low impact on the environment?	V		(1) The Group has adopted the following measures to enhance its resource utilization efficiency: 1. Recycling of the office's copy paper or both-side printing of the copy paper. 2. Replace the illumination lamps with LED lamps step by step, so as to reduce electricity consumption. 3. Recycled paper is requested to gradually replace ordinary cartons used for transportation, whereas suppliers are also requested to replace the printing oil ink with the environmentally friendly soy ink, in order to reduce the environment's burden.	none
(2) Has the company set up the proper environmental management systems according to its industrial characteristics?	V		(2) The Group's subsidiary Weishuo (Shanghai) Daily Product Limited garnered the ISO14001 international environmental system certification at the end of 2014, and has established its environmental management system. Currently, it is preparing to file the application for the production cleaning certification with China's competent authorities. The application is expected to be submitted in July 2016. With it, the Company's endeavor for environmental protection will be	none

Item	Implementation Status(note 1)			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary (note 2)	
			further reinforced.	
(3) Has the Company paid attention to the influence of climate change on operating activities, to execute greenhouse gas inventory and set up its strategies for energy conservation and carbon reduction and greenhouse gas reduction?	V		(3) In conjunction with its acquisition of ISO14001 certification, the Company has already set up its energy conservation and carbon reduction policies, and fulfill them in execution, for instance: 1. Consecutive production in a same production line within the feasible scope, which may reduce the water consumption required in cleaning of the production line switch, and simultaneously, generate less waste water. 2. Except for required illumination lamps and ventilation facilities, other lights and air conditioning shall be turned off during the lunch break time, or when 80% of employees are not in the office.	none
3. Social welfare maintenance (1)Has the Company abided by the related regulations, international human right convention to set up related management policies and procedures?	V		(1) According to labor related regulations and relevant personnel rules, the Company has set up its employee work rules to protect its employees' legal rights and interests.	none
(2)Has the Company set up an appeal mechanism and channel for its employees and handle them properly?	V		(2) The Company has already established its employee appeal system, and set up the hotlines and e-mail address as the channels for employees to lodge their complaints. The appeal cases shall be handled by the dedicated unit designated by the corporate governance promotion panel, and the handling results shall be	none

Item	Implementation Status(note 1)			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary (note 2)	
			reported to the management.	
(3) Has the Company provided its employees with a safe and healthy working environment and implemented periodical education about safety and health?	V		(3) The Company has periodically inspected and repaired firefighting and health facilities and emergency doors (ladders), provided its employees with the annual health examination and held labor safety and health educational training to offer its employees a safe and healthy working environment.	none
(4) Has the Company set up its employee periodical communication mechanism, and notified the employees under the reasonable method of the operating change which may possibly result in material influence?	V		(4) The Company has continued to communicate with employees in order to better understand how its employees recognize and comprehend the Company's policies, and publicized the Company's operating guidelines and orientation in a timely way, so as to have a joint growth of the Company and its employees.	none
(5) Has the Company set up any effective career capacity development training plan for its employees?	V		(5) The Company has provided internal and external training courses and seminars for its employees to develop their career. In so doing, other than executing their tasks, the employees may also acquire the techniques required for their promotion.	none
(6) Has the Company instituted any consumer interest protection policy and complaint procedure in relation to its R&D, procurement, production, operation and service processes?	V		(6) The Company has the consumer service hotline, which is taken charge by the dedicated customer service unit for handling of customer complaints in a timely way.	none
(7) Has the Company	V		(7) The Company's product marketing	none

Item	Implementation Status(note 1)			Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no	Summary (note 2)	
complied with related laws and regulations and international standards in terms of marketing and labeling of its products and services?			and labeling are examined by its dedicated unit, and will not go on sale until complying with the laws and regulations stipulated by the government of the place where the product sells.	
(8) Prior to developing a business relationship with any of its suppliers, did the Company evaluate if the supplier in question left any records of impact on the environment and society?	V		(8) The Company has valued environmental and social protection, and the suppliers having the environmental protection certification may be selected by the Company as priority. In addition, the Company will also watch out if a supplier impacts the environment and society, and the results will be used as the important reference for future cooperation.	none
(9) Do the contracts between the Company and its major suppliers cover the clause required to terminate or remove a contract at any time when the supplier is involved in any violation of the Company's corporate social responsibility policy which significantly impacts the environment and society?	V		(9) The Company's contracts signed with its suppliers have specifically prescribed that, in case of any violation by the supplier which results in any vicious impact or punishment by the competent authorities, the Company is entitled to immediately discharge the contract.	none
I. Enhancement of Information Disclosure (1) Has the Company disclosed the data related to its relevant and reliable corporate social responsibility	V		The Company has disclosed the information in relation to corporate responsibility on its corporate website and in its annual report and prospectus.	none

Item	Implementation Status(note 1)		Summary (note 2)	Variance from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company
	yes	no		
in its website and Market Observation Post System				
V. If the Company has set up its corporate social responsibility best practice principles in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-List Company”, please describe the difference between the operation and the instituted principles: : none				
VI. Other important information which may help understand the operation of corporate social responsibility:				
<ol style="list-style-type: none"> <li>1. Environmental protection: The Company has followed statutory laws and regulations to execute control and management of environmental protection.</li> <li>2. Community participation, social contributions, social services and social welfare: By using its brand awareness, the Company has devoted its efforts to combining social welfare and fulfilling its share of obligation and responsibility for corporate operating.</li> <li>3.Consumer rights and interests: The Company has the customer service hotline which is used to handle customer complaints.</li> <li>4.Human rights: The Company gives equal employment opportunity to its employees regardless of their gender, religion or party. In addition, the Company has also built a good working environment to protect its employees from discrimination and harassment.</li> <li>5. Safety and health: For safety and health issues, the Company has complied with statutory laws and regulations to execute safety and health control and management.</li> <li>6.Other social responsibility activities: The activities such as donations for disaster relief, fulfillment of its share of social responsibility and caring for remote children’s education.</li> </ol>				
VII. Other information regarding products or “Corporate Social Responsibility Report” which are verified by certification bodies: None				

Note 1: Whether check “Yes” or “No,” brief explanation is required in the provided space.

Note2: Instead of an explanatory memorandum, Companies that have prepared Corporate Social Responsibility Report can refer to it with page index.



**(6) Status of the Company’s fulfillment of ethical management and adoption of measures**

Item	Implementation Status(note 1)			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
1. Set up ethical management policies and schemes (1) Has the Company explicitly indicated ethical management policies in the Company’s regulations, methods and documents for outsiders, and the promise of aggressive fulfillment of the commitment made by the board of directors and the management?	V		(1) The Company has set up its “Ethical Management Best Practice Principles” and submitted them to the board of directors for adoption. The Principles have turned out to be the commitment for the board of directors and the management to fulfill the execution after adoption by the board of directors.	none
(2) Has the Company instituted the scheme for prevention of dishonest behavior, stipulated schemes’ operation procedure, conduct guide and violation punishment and appeal system and carried out them?	V		(2) The Company has set up its “Ethical Management Operation Procedure and Conduct Guidelines”, which specifically define relevant operation procedures and violation punishment, and the implementation has been carried out accordingly.	none
(3) Has the Company taken any prevention measures for the operating activities with a higher degree of risk in the dishonest conduct defined in Paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” or within the business scope?	V		(3) The Company has set up relevant internal control systems and rules for the operating activities where the unethical conduct is likely to occur, and, when executing any audit, the audit personnel have also reinforced their examination of such activities, in an attempt to reduce occurrence of the unethical conduct.	none
2. Fulfillment of ethical management	V			none

Item	Implementation Status(note 1)			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
(1) Has the Company evaluated the integrity record of its business counterparties and has it explicitly included an integrity conduct clause in the contracts with its business counterparties?			(1) Prior to any transaction, the Company will assess the relevant records of the transaction counterparty, and the results will be used as the important reference for future cooperation. At the same time, the following is stated in the contract signed with any of its suppliers: The Company's employees are not allowed to request or receive kickbacks from the supplier, whereas the supplier shall not offer or take any bribe, cash gift or give any entertainment for any reason. In case of any violation, the Company may terminate the procurement contract and the supplier shall be liable for any resulting losses and expenses.	
(2) Has the Company set the board of directors to promote the dedicated (or part-time) unit for corporate integrity promotion, and reported to the board of directors for the execution status?	V		(2) Currently, the Company's corporate governance promotion panel is in charge of the promotion of ethical management related affairs, in which the board of directors has designated a convener and deputy convener to promote related businesses, and report the progress to the board of directors every half year.	none
(3) Has the Company set up its policy to prevent interest conflict, provided proper channels for opinion expression and carried out them?	V		(3) The Company covers the principle to prevent conflict of interests in its "Ethical Conduct Codes". In addition, it also includes the channels to report any conflict of interests in its "Ethical Management Operation Procedure and Conduct Guidelines", so all of the	none

Item	Implementation Status(note 1)			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
			Company's colleagues can comply with the rules to carry out the implementation.	
(4) Has the Company set up its effective accounting system, internal control system for its ethical management, and periodically auditing conducted by the Company's internal unit and commissioned by CPA to execute the auditing?	V		(4) When designing its accounting system and internal control system, the Company already took ethical management requirements into account. When conducting internal auditing, the Company's audit unit also simultaneously examines the efficacy. On the other hand, according to the company listing laws and regulations, the Company has appointed a CPA to annually execute the internal control and review, so as to endure efficacy of the Company's internal control system.	none
(5) Has the Company periodically held internal and external educational training for the ethical management?	V		(5) The Company has set up its "Ethical Management Operation Procedure and Conduct Guidelines" to build its ethical management in the corporate culture, and promoted such concept in various meetings and educational training, in an attempt to carry out the implementation.	none
3. The operation status of the Company's reporting system (1) Has the Company set up a specific reporting and incentive system, established convenient reporting channels and assigned appropriate dedicated handling personnel in accordance with the reported	V		(1) The Company specifically covers the reporting and incentive system in its "Ethical Management Operation Procedure and Conduct Guidelines", and the reporting affairs are handled by the dedicated unit designated by the corporate governance promotion panel.	none

Item	Implementation Status(note 1)			Variance from Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and reasons
	Yes	No	Summary	
persons?				
(2) Has the Company set up the investigation standard operation procedure and relevant confidentiality mechanism to take care of the reported matters?	V		(2) The Company specifically covers the operation procedure for the reporting affairs and relevant confidentiality mechanism in its “Ethical Management Operation Procedure and Conduct Guidelines”	none
(3) Has the Company taken any measures to protect the whistleblower from any improper punishment as a result of their reporting?	V		(3) As stipulated by the Company, the whistleblower and reporting content shall be kept confidential, so as to protect the whistleblower from any improper punishment.	none
4. Enhancement of information disclosure (1) Has the Company set up a corporate website that publishes information relating to company’s corporate conduct and ethics.	V		The Company has set up its corporate website and disclosed the information regarding its corporate culture and operating directions on the website, whereas it has also announced its Ethical Management Principles on the Market Observation Post System.	none

Note 1: Note 1: Whether check “Yes” or “No,” brief explanation is required in the provided space.

**(7) In the case that the Company has already set up its corporate governance principles and other related regulations, the enquiry method shall be disclosed.**

Our Company has formulated Corporate Governance Best Practice Principles, which is disclosed on our company website.

Our company’s IR Investor News web address: <http://www.chlitinaholding.com/>

**(8) Other important information which may enhance the understanding about the Company’s governance operation status: None**

**(9) Implementation status of the internal control system,**

## 1. Statement of Internal Control System

Chlitina Holding Limited  
**Statement of Internal Control System**


Date: Mar. 4, 2016


Based on the results of self-examination, I would like to state the following regarding the Internal Control System of the Company for the year 2015:


1. The Company ascertains that the establishment, implementation and maintenance of the internal control system are the duty and responsibility of the Company's board of directors and managerial officers and the Company has already established such a system. Its aim is to provide a reasonable assurance that the effectiveness and efficiency of business operations (including profitability, performance and security of assets), report the achievement of the goal for reliability, timeliness, transparency and compliance with related rules and relevant laws and regulations.
2. Any internal control system has its inherent limitations, no matter how well it was designed. An effective internal control system can only provide a reasonable assurance that the above mentioned three targets were accomplished and due to changes in environments and circumstances, the effectiveness of the internal control system may change as well. Provided that the Company's internal control system has a self-monitoring mechanism, and when a deficiency is identified, the Company immediately takes a corrective action.
3. Based on the items determining the effectiveness of the internal control system under the provisions of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called "Guidelines"), the Company determines whether the design and implementation of the internal control system are effective or not. The items determining the effectiveness of the internal control system adopted by the above mentioned "Guidelines" were based on the process of the management control, and divide the internal control system into five components: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Supervision operations. Each component contains several items. For the aforementioned items, please refer to the provisions of the "Guidelines".
4. The Company has already adopted the above mentioned items that determine the effectiveness of the internal control system and for it to examine the effectiveness of the Company's design and implementation of the internal control system.
5. Based on the findings of the preceding paragraph, the Company believes that, as of Dec. 31, 2015, the internal control system (including the supervision and management of the subsidiaries),

including the degree of attainment of its operational effectiveness and efficiency goals, report effectiveness of the design and execution of the internal control system in relation to reliability, timeliness, transparency and compliance with related rules and relevant laws and regulations. the reliability of the financial reports and related regulatory compliance related to the design and implementation of the internal control system, was effective and it can reasonably ensures the achievement of the above mentioned objectives.

6. This statement will become an important part of the Company's annual report and prospectus and it will be disclosed to the public. Should there be any false information, omissions or other illegalities in the above public disclosure, it will involve legal liabilities as cited in Article 20, Article 32, Article 171 and Article 174 of the Securities Exchange Act.
7. This statement was approved by the board of directors of this Company on Mar. 4, 2016. Of the 8 directors present (including 3 independent directors and 2 persons, who were authorized by the directors), there were no dissenting votes and the contents of this statement was approved by all present and we are hereby making this declaration.

Chlitina Holding Limited 

Chairperson: Pi-hua Joanna Chen 

President: Pi-hua Joanna Chen 

## 2. Audit Report of Internal Control Systems

### Audit Report of Internal Control Systems

We have completed the audit of the attached statement issued by Chlitina Holding Limited and its subsidiaries on March 4, 2016 that the internal control systems in relation to their external financial reports and asset safety protection were effectively designed and executed on December 31, 2015. Maintenance of effective internal control systems and evaluation of their validity are the responsibility of the management of the Company, and our responsibility is to express an opinion on the validity of the Company's internal control systems and the preceding companies' internal control system statement based on the audit results.

We planned and executed the audit tasks in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and generally accepted auditing standards, in order to reasonably make sure whether the preceding internal control systems could maintain their validity in all material respects. The audit tasks included awareness of company's internal control systems, the course to evaluate the validity of the management's overall internal control system assessment, assessment of the validity of internal control system design and execution on a test basis, and other audit procedures considered necessary by us. We believe that our audit provides a reasonable basis for our opinion.

Any internal control system can have its innate limitation, so the preceding internal systems of Chlitina Holding Limited and its subsidiaries may also likely to fail in preventing errors or corruption or detecting those that have occurred. In addition, the environment may change in the future, so the internal control systems may not be able to maintain their validity in the future. As such, the effective internal control systems applied in the current period are not necessarily valid in the future.

In our opinion, according to the internal control effective judgment items of the "Regulations Governing Establishment of Internal Control Systems by Public Companies", the internal control systems in relation to Chlitina Holding Limited and its subsidiaries and their external financial reports as well as asset safety protection designed and executed on December 31, 2015 could all maintain validity in all material respects. The statement issued by Chlitina Holding Limited and its subsidiaries on March 4, 2016 that the internal control systems in relation to the preceding companies, their external financial reports and protection of asset safety were effectively designed and executed presents fairly in all material respects.

**(10) The numbers of penalty for unlawful behaviors of the company and its internal employees and the numbers of penalty for violating company internal regulations, and the numbers of significant deficiency and improvement from the most recent fiscal year up to the date of this prospectus publication: None.**

**(11) Major resolutions adopted by shareholders’ meetings and board of directors’ meetings in the latest year and as of the date of printing of the annual report:**

**1. Major resolutions and execution status adopted by regular shareholders’ meeting and extraordinary meeting:**

Date	Term	Items of major resolutions	Execution status
June 17, 2015	Regular shareholders’ meeting	1.2014 Audit Committee Audit Report	Chairperson notified all participated shareholders.
		2.2014 annual Related Party Disclosures	Chairperson notified all participated shareholders.
		3. Partial amendment for Guidelines for the Adoption of Codes of Ethical Conduct	Chairperson notified all participated shareholders.
		4. Recognition of 2014 annual business report and consolidated financial statement.	Chairperson notified all participated and recognized by shareholders.
		5. Recognition of 2014 Profit Distribution Plan.	The recognition is completed. The plan has been approved by shareholders’ meeting and executed.
		6. Resolution to amend part of “Articles of Incorporation” amendment.	The recognition is completed. The plan has been approved by shareholders’ meeting and executed.
		7. Resolution to amend part of “Acquisition or Disposal of Assets” .	The recognition is completed. The plan has been approved by shareholders’ meeting and executed.
		8. Resolution to amend part of “Rules of Procedures for Shareholders’ Meetings” and “Director Election Procedure” amendment.	The recognition is completed. The plan has been approved by shareholders’ meeting and executed.
		9. Resolution to extend “Directors and Officers Liability Insurance.”	The recognition is completed. The plan has been approved by shareholders’ meeting and executed.
		10. The comprehensive directors reelection.	The recognition is completed. The plan has been approved by shareholders’ meeting and



		executed.
	11. The resolution to remove the non-compete clause for new director.	The recognition is completed. The plan has been approved by shareholders' meeting and executed.

## 2. Major resolutions adopted by board of directors' meetings:

Date	Term	Items of major resolutions
Mar. 12, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Adoption of 2014 Internal Control Statement.</li> <li>2. Adoption of 2014 ad hoc review of the internal control.</li> <li>3. Adoption of partial amendment of our company's "Acquisition or Disposal of Assets".</li> <li>4. Adoption of partial amendments of our company's " Guidelines for the Adoption of Codes of Ethical Conduct, "Ethical Management Operating Procedures and Behavioral Guidelines," "Rules of Procedures for Shareholders' Meetings" and "Director Election Procedure."</li> <li>5. Adoption of 2014 annual Business Report, Financial Statement, and Audit Report.</li> <li>6. Adoption of 2014 Profit Distribution Plan.</li> <li>7. Adoption of the addition of Related Party Disclosure to our company's subsidiary, Hong Kong CHLITINA International Limited.</li> <li>8. Adoption of the transfer of intangible assets proposal of company's subsidiary, Hong Kong CHLITINA International Limited.</li> <li>9. Adoption of partial amendments of the Articles of Incorporation.</li> <li>10. Adoption of Comprehensive Director Reelection procedure.</li> <li>11. Adoption of Independent Directors Nominations.</li> <li>12. Adoption of the proposal to remove the non-compete clause for new director.</li> <li>13. Adoption of the proposal to purchase "Directors and Officers Liability Insurance."</li> <li>14. Adoption of the proposal to call for 2015 Regular Shareholders' Meeting.</li> <li>15. Adoption of the proposal to hire a new spokesperson.</li> <li>16. Adoption of the amendment of Loaning Capital to Others.</li> <li>17. Adoption of the proposal to establish a subsidiary, Hong Kong Crystal Asia International Limited.</li> </ol>
Apr. 24, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Adoption of the hiring of new president.</li> <li>2. Adoption of the hiring of new spokesperson.</li> <li>3. Adoption of the proposal to remove the non-compete clause for new managerial officer.</li> </ol>
May 7, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Aware of the CPA having reviewed 2015 First Quarter Consolidated Financial Statement.</li> <li>2. Aware of the related party disclosure.</li> </ol>

		<ol style="list-style-type: none"> <li>3. Adoption of the changes in the level of authority.</li> <li>4. Adoption of the salary and remuneration package for the new chairperson /president.</li> <li>5. Adoption of hiring of managerial officers.</li> <li>6. Adoption of the salary and remuneration for the new hired managerial officers.</li> <li>7. Adoption of the proposal to remove the non-compete clause for new managerial officers.</li> <li>8. Adoption of the proposal to have board-of-directors review proposals of shareholders with more than 1% of company shares and the nomination of independent directors.</li> </ol>
June 17, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1, Adoption of the proposal to elect Ms. Pi-hua Joanna Chen as the Chairperson for the second board-of- directors.</li> <li>2. Adoption of the proposal for the 3 Second Independent Directors as the members of the Second Remuneration Committee.</li> </ol>
July 7, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Adoption of our company’s cash dividend distribution benchmark date and payment date.</li> <li>2. Adoption of the adjustments to the reinvestment amounts for our company and its subsidiaries.</li> <li>3. Adoption of the amendment to loaning capital to others for our company and its subsidiaries.</li> </ol>
Aug. 11, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Aware of the CPA having reviewed 2015 Second Quarter Consolidated Financial Statement.</li> <li>2. Aware of the related party disclosure</li> <li>3. Adoption of the compensation for directors and supervisors for the 2014 Annual Profit Sharing Plan.</li> <li>4. Adoption of 2014 Annual Managerial officers’ Employees Bonus Distribution Plan.</li> <li>5. Adopted the proposal regarding Reinvestment Capital for subsidiary, Weihu (Shanghai) Trade Limited.</li> <li>6. Adoption of the addition of Related Party Disclosure to our company and its subsidiaries.</li> <li>7. Adoption of the proposal to adjust the Loaning Capital to Others among our company subsidiaries.</li> </ol>
Sep. 24, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Adoption of addition of Related Party Disclosure to our company and its subsidiaries.</li> <li>2. Adoption of the proposal to issue our company’s first Taiwan domestic unsecured convertible bond.</li> </ol>
Nov. 12, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Aware of the CPA having reviewed 2015 Third Quarter Consolidated Financial Statement.</li> <li>2. Aware of Related Party Disclosure.</li> <li>3. Adoption of our company’s 2016 Internal Audit Plan.</li> </ol>
Dec. 17, 2015	Board of Directors	<ol style="list-style-type: none"> <li>1. Aware of our company’s self-evaluation on “Financial Statement Preparation Capability.”</li> <li>2. Adoption of the proposal of our company’s 2016 certified CPA appointment and certification fee.</li> </ol>

		<ol style="list-style-type: none"> <li>3. Adoption of addition of Related Party Disclosure to our company and its subsidiaries.</li> <li>4. Adoption of our company’s “Operating Procedures of Application to Suspend and Resume Trading.”</li> <li>5. Adoption of the proposal to remove the non-compete clause for new managerial officers.</li> <li>6. Adoption of the proposed 2016 Operation Plan.</li> <li>7. Adoption of the proposed 2016 Operating Budget.</li> <li>8. Adoption of the partial amendment of our Articles of Incorporation.</li> <li>9. Adoption of the partial amendment of “Directors and Managerial officers Salary Remuneration Administration.”</li> <li>10. Adoption of the proposed Estimate of 2016 Directors Employees Pay Bases.</li> <li>11. Adoption of the proposed 2015 managerial officer’s year-end bonus.</li> <li>12. Adoption of the proposal to adjust 2016 managerial officers’ salaries and remuneration.</li> </ol>
Feb. 1, 2016	Board of Directors	<ol style="list-style-type: none"> <li>1. Adoption of the proposed real estate purchase and interior decoration for our subsidiary CHLITINA (Shanghai) Trade Limited.</li> </ol>
Mar. 4, 2016	Board of Directors	<ol style="list-style-type: none"> <li>1. Aware of Related Party Disclosure.</li> <li>2. Aware of the report on the issuance our company’s first Taiwan domestic unsecured convertible bond.</li> <li>3. Adoption of the proposed 2015 Internal Control Declaration.</li> <li>4. Adoption of the proposed 2015 Internal Control Special Case Auditing.</li> <li>5. Adoption of the proposed 2015 Operation Report, Financial Statement, and Draft to CPA Reviewed Audit Report.</li> <li>6. Adoption of the proposed Annual Profit Distribution Plan.</li> <li>7. Adoption of the reinvestment proposal to establish a subsidiary for our subsidiary, CHILTINA Group Limited.</li> <li>8. Adoption of addition of Related Party Disclosure to our company and its subsidiaries.</li> <li>9. Adoption of the proposal to extend “Directors and Officers Liability Insurance.”</li> <li>10. Adoption of the call to hold 2016 Regular Shareholders’ Meeting.</li> </ol>
Mar. 21, 2016	Board of Directors	<ol style="list-style-type: none"> <li>1. Adoption of the proposed real estate purchase and interior decoration for our subsidiary CHLITINA (Shanghai) Trade Limited.</li> </ol>
May 12, 2016	Board of Directors	<ol style="list-style-type: none"> <li>1. Aware of the 2016 First Quarter Consolidated Financial Statement.</li> <li>2. Aware of the related party disclosure.</li> <li>3. Aware of the board-of-directors having reviewed proposals of shareholders with more than 1% of company shares: No shareholder proposal</li> <li>4. Aware of the report on the issuance our company’s first Taiwan domestic unsecured convertible bond: No company bond converted.</li> <li>5. Adoption of the proposed charity donation ratification.</li> <li>6. Adoption of partial amendment of our company’s “Ethical Corporate</li> </ol>

		<p>Management Best Practice Principles.”</p> <p>7. Adoption of addition of Related Party Disclosure to our company and its subsidiaries.</p> <p>8. Adoption of the reinvestment proposal of our company’s subsidiary, Chlitina Group Limited.</p> <p>9. Adoption of the proposed adjustment to Estimate of 2016 Directors Employees Pay Bases.</p> <p>10. Adoption of the proposed 2015 employees’ and directors’ pay distribution plan.</p> <p>11. Adoption of the proposed 2015 directors’ salary and remuneration.</p> <p>12. Adoption of the proposed 2015 Managerial officers’ employee salary and remuneration distribution plan.</p> <p>13. Adoption of the call to hold the second 2016 regular shareholders’ meeting.</p>
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**(12) The major content of the different opinions having been recorded or declared in writing from any director or supervisor on major resolutions adopted by board meetings in the latest year and as of the date of printing of the annual report: None**

**(13) From the most recent fiscal year up to the date of this prospectus publication, the resigned status of company Chairperson, President, Accounting Director, Financial Director, Internal Audit Director and R&D Director are as follows: President, Mr. Yu, Ching-Lun, resigned on Apr. 30, 2015. The Chairperson, Pi-hua Joanna Chen, concurrently serves as president.**

**v. Information Regarding Fee for CPAs**

As of Dec. 31, 2015;

Unit: NTD1,000

The Name of the Office of CPA	The Name of the CPA	Audit Fee	Non-Audit Fee					Whether CPA’s audit period covers the whole fiscal year			Remark
			System Design	Industry and business registration	Human Resource	Other	Sub-total	Yes	No	Audit Period	
KPMG	Huang, Po-Shu and Yu, An-Tian	10,419	-	-	-	3,020	3,020	V	-	-	note

Note: 1. Our company does not release the record listed in the item 11 of paragraph 5 of Article 10 in the Information to be Published in Annual Reports of Public Companies.

2. Our company's CPA fee was approved by the board-of-directors after the approval from Audit Committee. The board-of-directors authorized the Chairperson to negotiate with the CPA.

- (1) Those that have paid more than 25% of their total audit fee to the CPA or the firm of the CPA or those whose affiliated enterprises' non-audit fee is more than 25% of their total audit fee shall disclose the amounts of their audit fee and non-audit fee and the content of their non-audit services: No applicable
- (2) Those that have replaced their accounting firm and had less amount of their audit fee in the year after the replacement compared to the year prior to the replacement shall disclose the amounts of their audit fee incurred in the year prior to replacement and the year after replacement, and the reason for the decrease: None
- (3) Those whose audit fee reduced by more than 15% from the previous year shall disclose the amount and ratio of the decrease and the reason for it: None

**vi. Information on CPA replacement (None)**

**vii. For the Company's chairperson, president and managerial officers in charge of financial and accounting affairs, and those who worked in the firm or affiliated enterprise of the CPA in the latest year: None.**

**viii. Net change in shareholding and net change in shares pledged by Directors, Supervisors, Managerial officers and Shareholders with 10% shareholding or more**

- (1) The director, supervisor, managerial officer or shareholder holding more than 10%:

Unit: thousand shares

Title	Name	2014		2015(note 1)		As of Apr. 30, 2016 (note 3)	
		Increase (decrease) on Shareholding	Increase (decrease) on Pledged Shares	Increase (decrease) on Shareholding			Increase (decrease) on shareholding
Chairperson President	Pi-hua Joanna Chen	-	-	-	-	-	-
Director and major shareholder	Wealthy Garden Investment Limited (Wealthy Garden Investment Limited)	1,336	-		-	-	-
Representative	Chen, Le-Wei	-	-	-	-	-	-

of Directors	(note 2)						
	Chen, Pei-Wen (note 2)						
Director	Yi Zhu	-	-	-	-	-	-
Director	Sizong Wu	-	-	-	-	-	-
Director	Chung-Teh Lee	-	-	-	-	-	-
Independent Director	Yuqin Cai	-	-	-	-	-	-
Independent Director	Pengwen Gao	-	-	-	-	-	-
Independent Director	Hongding Yu	-	-	-	-	-	-
President	Yu, Ching-Lun (Note 3)	(42)	-	-	-	-	-
CFO	Hu, Hui	-	-	-	-	-	-
Vice President of Legal Dept.	Wang, Yu-Hsia	-	-	-	-	-	-
Vice President of Business Training Dept.	Yeh, Mei-Feng	-	-	-	-	-	-
Vice President of Training Center	Yeh, Ting-Ku (Note 4)	-	-	-	-	-	-

Note 1: Due to the comprehensive reelection in the regular shareholders meeting on June 17, 2015.

Note 2: Director, Mr. Chen, Le-Wei, of Wealthy Garden Investment Limited was corporate representative from Nov. 5, 2012 to June 17, 2015. Mr. Chen was naturally released from the position after the comprehensive reelection in the regular shareholders' meeting on June 17, 2015. The newly appointed representative is Ms. Pei-Wen Chen. The term period is from June 17, 2015 to June 16, 2017.

Note 3: President, Mr. Yu, Ching-Lun resigned on Apr. 30, 2015; the chairperson, Ms. Pi-hua Joanna Chen started to concurrently serve as president on May 1, 2015.

Note 4: Vice president of training center, Mr. Yeh, Ting-Ku resigned on Aug. 17, 2015.

Note 5: Up to book closure date, Apr. 30, 2016.

(2) Equity transfer: None

(3) Information of equity pledge: None

**ix. Information on the fact that the top 10 shareholders are the related parties of each other, in a spousal relationship or within 2nd level of kinship as referred.**

Apr. 30, 2016 Unit: share;

Name	Holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Names and relationship of any of the top 10 shareholders are the related parties of each other, in a spousal relationship or within 2 <sup>nd</sup> level of kinship as referred to in the International Accounting Standard No. 6.		Remarks
	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Name	Relationship	
Cathay United Bank entrusted with the custody account Wealthy Garden Investment Limited Representative: Chen, Wu-Kang	28,056,000	35.29%	-	-	-	-	Cathay United Bank entrusted with the custody account Gold Dragon (Asia) Limited	The same Chairperson	-
							Cathay United Bank entrusted with the custody account Baifu (Asia) Limited	The same Chairperson	-
							Cathay United Bank entrusted with the custody account Museparc Co., Ltd.	The spouse of the Chairperson	-
							ICBC Bank entrusted with the custody account J & R International Holding Co., Ltd.	1st level of kinship of the Chairperson	-
Cathay United Bank entrusted with the custody account Shou Hsin Development Limited	4,058,200	5.11%	-	-	-	-	Cathay United Bank entrusted with the custody account Wealthy Garden Investment Limited	The same Chairperson	-
							Cathay United Bank entrusted with the custody account Baifu (Asia) Limited	The same Chairperson	-
							Cathay United Bank entrusted with the custody account Museparc Co., Ltd.	The spouse of the Chairperson	-
							ICBC Bank entrusted with the custody account J & R International Holding Co., Ltd.	1st level of kinship of the Chairperson	-
ICBC Bank entrusted with the custody account Shou Hsin Development Limited	3,383,202	4.26%	-	-	-	-	Cathay United Bank entrusted with the custody account Wealthy Garden Investment Limited	The same Chairperson	-
							Cathay United Bank entrusted with the custody account Baifu (Asia) Limited	The same Chairperson	-
							Cathay United Bank entrusted with the custody account Museparc Co., Ltd.	The spouse of the Chairperson	-
							ICBC Bank entrusted with the custody account J & R International Holding Co., Ltd.	1st level of kinship of the Chairperson	-

Representative: Pi-hua Joanna Chen								custody account Gold Dragon (Asia) Limited Cathay United Bank entrusted with the custody account Baifu (Asia) Limited Cathay United Bank entrusted with the custody account Museparc Co., Ltd. ICBC Bank entrusted with the custody account Shou Hsin Development Limited		
Cathay United Bank entrusted with the custody account Baifu (Asia) Limited Representative: Chen, Wu-Kang	2,188,600	2.75%	-	-	-	-	-	Cathay United Bank entrusted with the custody account Wealthy Garden Investment Limited Cathay United Bank entrusted with the custody account Gold Dragon (Asia) Limited	The same Chairperson	-
								Cathay United Bank entrusted with the custody account Museparc Co., Ltd.	The spouse of the Chairperson	
								ICBC Bank entrusted with the custody account J & R INTERNATIONAL HOLDING CO., LTD.	1st level of kinship of the Chairperson	
								ICBC Bank entrusted with the custody account Shou Hsin Development Limited	2nd level of kinship of the Chairperson	
ICBC Bank entrusted with the custody account Shou Hsin Development Limited Representative: Chao, Cheng-Yu	1,875,617	2.36%	-	-	-	-	-	ICBC Bank entrusted with the custody account J & R INTERNATIONAL HOLDING CO., LTD.	1st level of kinship of the Chairperson	-
								Cathay United Bank entrusted with the custody account Wealthy Garden Investment Limited Cathay United Bank entrusted with the custody account Gold Dragon (Asia) Limited Cathay United Bank entrusted with the custody account Baifu (Asia) Limited Cathay United Bank entrusted with the custody account Museparc Co., Ltd.	2nd level of kinship of the Chairperson	
Standard Chartered Bank entrusted with the custody account Kuonia Fund - low-risk emerging market stocks	1,602,159	2.02%	-	-	-	-	-	-	-	-



HSBC entrusted with the custody account Titou emerging market fund	1,263,000	1.59%	-	-	-	-	-	-	-
ICBC Bank entrusted with the custody account B & V International Holdings Co., Ltd. Investment Account Representative: Chen, Chao-Ching	904,950	1.14%	-	-	-	-	Valerie International Limited	The same Chairperson	-
Chase Bank entrusted with the custody account Comprehensive Retirement Trust Fund (emerging market stocks)	872,339	1.10%	-	-	-	-	-	-	-
HSBC (U.K.) entrusted with the custody account - I B (Asia) SBL	791,000	1.00%	-	-	-	-	-	-	-

**x. The shares of a same re-investment business held by the Company, its directors, supervisors, managerial officers and the business directly or indirectly controlled by Company, and details of consolidated shareholding ratios:**

Apr. 30, 2016 Unit: share;

Re-investment business	The company's investment		Investments of directors, supervisors, managerial officers and the business directly or indirectly controlled by Company		Syndicated Investments	
	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share	Number of Shares	Rate of holding share
Chlitina Group Limited	3,206,707,348	100%	-	-	3,206,707,348	100%
Chlitina International Limited	17,000,001	100%	-	-	17,000,001	100%
Chlitina Intelligence Limited	1	100%	-	-	1	100%
W-Amber International Limited	12,000,000	100%	-	-	12,000,000	100%
Centre de Recherche et de Developpement de CHLITINA	500	100%	-	-	500	100%

FRANCE EURL						
Hong Kong Chlitina International Limited	62,150,001	100%	-	-	62,150,001	100%
Chlitina Marketing Limited	10,695,997	100%	-	-	10,695,997	100%
W-Amber Marketing Limited	12,000,000	100%	-	-	12,000,000	100%
Hong Kong Crystal Asia International Limited	92,800,000	100%	-	-	92,800,000	100%
Chlitina (Shanghai)Trade Limited	(Note)	100%	-	-	(Note)	100%
Weishuo Daily Product Limited	(Note)	100%	-	-	(Note)	100%
Wuguan (Shanghai) Trade Limited	(Note)	100%	-	-	(Note)	100%
Weihsu (Shanghai) Trade Limited	(Note)	100%	-	-	(Note)	100%

Note: Refers to a limited company, no number of Shares held.

## IV. Capital raising status

### i. Capital and Stocks

Apr. 30, 2016 Unit: 1,000 shares: NTD1,000

#### (1) Sources of Capital Stock

Period	Price at issuance	Authorized capital		Paid in capital		Remarks		
		Number of Shares	Amount (NTD)	Number of Shares	Amount (NTD)	Sources of Capital Stock	Non-cash assets in lieu of stock payments	Other
July 2012	NT.10	200,000	2,000,000	2,000	20,000	It was established by the entire body of shareholders of Chlitina Group Limited. By contributing to the capital of the shares of Clitina Group Limited, the shareholders have acquired the consideration commitment of the new shares issued when establishment.		note 1
Aug. 2012	NT.10	200,000	2,000,000	66,800	668,000	Increased the capital by capital surplus NTD648,000 thousand through the seasoned equity offering	—	note 2
Nov. 2013	NT.168	200,000	2,000,000	75,707	757,070	Increased the capital by cash NTD1,496,376 thousand through the seasoned equity offering	—	note 3
Aug. 2014	NT.10	200,000	2,000,000	79,492	794,924	Increased the capital by earnings NTD37,854 thousand through the seasoned equity offering	-	note 4

Note 1: Our company was established on July 3, 2012. The capital stock was set to be NTD20,000 thousand. The per-share face value was NTD10.

Note 2: On Aug. 31, 2012, the extraordinary shareholders meeting decided to increase the capital by

capital surplus NTD648,000 thousand through the seasoned equity offering .

Note 3: The Board-of-directors meeting on Aug. 17, 2012 and extraordinary shareholders' meeting on Aug. 23, 2012 decided to list on Taiwan stock exchange. Thus, premarket public offering was processed, and the IPO cash capital had an increase of NTD1,496,376 thousand.

Note 4: The board-of-directors meeting on Mar. 12, 2014 and Shareholders' Meeting on June 19, 2014 passed our company's 2013 earnings sharing distribution plan.

Apr. 30, 2016 Unit: 1,000 shares

Type of Stock	Authorized capital			Remarks
	Outstanding stock	Unissued stock	Total	
Registered common stocks	79,492	120,508	200,000	—

## (2) Shareholder Structure

Apr. 30, 2016

Shareholder structure volume	Government institution	Banks	Mainland Chinese	Other corporation	Individuals	Foreign institutions and foreigners	Total
Number of persons	-	-	-	93	4447	191	4,731
Number of holding share (thousand shares)	-	-	-	5,443	14,561	59,488	794,92
Ratio of holding share	-	-	-	6.85	18.32	74.83	100

## (3) Equity Distribution: Each par valued at NTD10

Apr. 30, 2016

Holding share classification	Number of shareholders	Holding share (shares)	Ratio of holding share (%)
1~ 999	766	73,442	0.09

1,000~ 5,000	3290	5,806,209	7.30
5,001~ 10,000	278	2,146,028	2.70
10,001~ 15,000	92	1,188,009	1.49
15,001~ 20,000	60	1,096,304	1.38
20,001~ 30,000	60	1,544,393	1.94
30,001~ 50,000	47	1,845,623	2.32
50,001~ 100,000	66	4,687,177	5.90
100,001~ 200,000	34	4,800,105	6.04
200,001~ 400,000	17	4,936,901	6.21
400,001~ 600,000	7	3,535,142	4.45
600,001~ 800,000	5	3,628,950	4.57
800,001~ 1,000,000	2	1,777,289	2.24
Over 1,000,001	7	42,426,778	53.37
Total	4,731	79,492,350	100.00

**(4) Major Shareholders: All shareholders with a share of 5 percent or greater**

Apr. 30, 2016 Unit: 1,000 shares

Major shareholders	shares	Holding share	Ratio of holding share (%)
Cathay United Bank entrusted with the custody account Wealthy Garden Investment Limited investment account		28,056	35.29
Cathay United Bank entrusted with the custody account Gold Dragon (Asia) Limited investment account		4,058	5.11

**(5) Stock Market Prices, Net Values, Earnings, Dividends, and Related Information**

Unit: NTD; 1,000 shares:

Item	Year	2014	2015	As of Q1 of 2016
		Market price per share (Note1)	High	331.00
	Low	128.00	142.00	261.00
	Average	224.48	223.83	305.16
Net value per share (Note2)	Retroacted before appropriation	41.89	49.65	53.26

	Retroacted to after appropriation (NTD)		34.89	Note8	Note8
EPS (Note3)	Weighted average shares		79,492	79,492	79,492
	EPS (NTD)	Before adjustment	9.51	14.68	4.07
		After adjustment	9.50	Note8	Note8
Dividend per share	Cash dividend(NTD)		7.00	10.00(Note8)	-
	Stock dividend issuance (NTD)	Shares allocated from earnings	0.00	0.00(Note8)	-
		Stocks for capital reserve	-	-	-
	Unpaid stock dividend accumulated (Note4)		-	-	-
ROI analysis	P/E ratio (Note5)		23.60	Note8	-
	Dividend ratio (Note6)		32.07	Note8	-
	Yield of cash dividend (Note7)		3.12%	Note8	-

Note 1: The highest and lowest market prices were listed. The average market price was calculated based on each year's transaction value and volume. Data Source: Taiwan Security Exchange.

Note 2: Filled based on the number of shares outstanding and next year's distribution plan decided by Shareholders' meeting.

Note 3: For those that are required to be retroacted and adjusted as a result of the stock dividend issuance, the EPS before and after adjustment shall be listed.

Note 4: For equity securities, if the release terms require that the unreleased stock dividend of the year in question shall be accumulated and not be released until the year having surplus, the unpaid stock dividend accumulated as of the year in question shall be disclosed respectively.

Note 5: P/E ratio = each share's average closing price of the year in question / EPS

Note 6: Dividend ratio = each share's average closing price of the year in question / each share's cash dividend

Note 7: Yield of cash dividend = each share's cash dividend / each share's average closing price of the year in question.

Note 8: Approved by the Board of Directors on Mar. 4, 2016, the case to be resolved by the Regular Shareholders Meeting.

**(6) The Company's dividend policy and its execution status:**

1. Based on the Cayman Islands Company Act, security listing rules, and the dividend policy (scheduled to be adopted on the shareholders' meeting on June 28, 2016) in our Articles of Incorporation, company cannot distribute dividend or bonus when there is no profit. While in listing, the dividend and bonus distribution should be carried out in New Taiwan Dollars. When there is profit at the end of the fiscal year, the company should set 1 to 5% for employee's compensation, up to 3% for director's compensation. Employee compensation can be distributed in stocks or cash. However, when there are still accumulative losses, make-up amount should be set aside first. The execution of employees and directors remuneration should be based on the Cayman Islands Company Act, security listing rules, and our Articles of Incorporation. When the company achieves profits for the year, tax should be paid or set-aside first to makeup for the previous losses. Next, legal surplus reserves and special surplus reserves should be set-aside. If there is still any profit left, it's the "distributable earnings of the year." This amount can be distributed by ordinary resolution in the shareholders' meeting. The shareholders' dividend should be at least 10% of the distributable earnings, and the cash dividend cannot be lower than 10% of the distributed dividend.
2. The dividend distribution planned to be discussed in this time of shareholders' meeting :  
Our company's 2015 Profit Distribution Program was adopted in the board-of-directors meeting on Mar. 4, 2016 and is scheduled to be recognized in the shareholders' meeting on June 28, 2016. The program plans to take NTD794,923,500 as cash dividend to distribute NTD10 per share to shareholders.
3. Significant Changes in the Dividend Policy to be expected: None.

**(7) Effects of the stock dividend issuance on Company Operating Performance and Earnings Per Share, as Resolved in the Shareholders' Meeting Resolution:**

According to MOF Securities and Futures Commission's Supplement posted on Feb. 1, 2000, No. (89)-Tai-tsai-cheng-(1)-tzu-ti-00371, our company does not need this disclosure because the 2014 Finance Prediction was not prepared or opened.

**(8) Remuneration of Employees, Directors and Supervisors**

1. Percentage or Range Remuneration of Employees, Directors and Supervisors stipulated at Articles of Incorporation: According to the above (6) the Company's dividend policy and its execution status

2. If the actually distributed amount has any difference from the amount estimated for the current period's employee bonus and director and supervisor remuneration and calculated according to distribution of the shares of the stock bonus, it will be handled as follows: For this time period, the actual distribution amount is consistent with calculation bases for number of stock distribution to the employees and the estimation bases for employees', directors', and supervisors' remuneration. Thus, it is not applicable. However, if shareholders' meeting later decides there is a discrepancy between the estimate and actual value, the discrepancy is listed as gains or losses for the current year.
3. If the recognized expenses are different from the employees' cash and stock remuneration and supervisors' remuneration, the discrepancy, reason for discrepancy, and the solution for the discrepancy should be disclosed. Number of the discrepancy incident: none.
4. The ratio of the employee stock remuneration amount resolved by the board of directors to the aggregation amount of after-tax net profit of the current period individual or single financial report and the total employee remuneration amount: Not applicable
5. To consider distributing earning per share to employees, directors, and supervisors: It's not applicable because the remuneration for employees, directors, and supervisors are expenses.
6. If the employee remuneration and director and supervisor remuneration actually distributed in the previous year have any difference from the recognized amount from actual distribution, the difference amount shall be indicated and the reasons and handling status shall also be described:  
No such as matters

**(9) The Company's repurchase of its shares: None**

**ii. Issuance of corporate bonds**

**Issuance of corporate bonds**

Type of Corporate Bond	The first time Unsecured convertible bonds within the R.O.C.
Date issued (processed)	Nov. 27, 2015
Par value	NTD100,000
Place of issuance and transaction	R.O.C.
Price on assurance	Issued by the par value
Total amount	NTD900,000 thousand
Interest rate	Coupon rate 0%
Period	3 years, matured on Nov. 13, 2018
Custodian bank	Not applicable



Depository	Trust Dept. of ICBC Bank
Underwriter	Fubon Securities Co., Ltd.
Certified Lawyer	Lawyer Hung, Tung-Hsiung, Chien Yeh Law Offices
CPA	KPMG CPA Huang, Po-Shu, CPA Yu, An-Tian
Type of Repayment	Cash pay back in face value at the maturity, excluding conversion, early buy back, or early sell back by issuing and conversion regulations.
Outstanding Principal	NTD900,000 thousand
Terms for Redemption or Early Settlement	<p>(1) If the closing price of our company's common stock is more than (equal to) 30% of the conversion price for a continuous 30 days between a day and a month after our company issued the convertible company bond (Dec. 14, 2015) to 40 days before the maturity (Oct. 4, 2018), our company can send a 30-day "Notification to Bond Buyback" via registered mail within 30 business days to bondholders listed at least 5 business days before the mailing day. (The time period is based on the mailing day, and the maturity day is the reference day for the Bond buyback. Also, the said period must not be the stop conversion period in Article 10. The bondholders who take possession of the bonds in any reason later will be informed by public announcement only.) A letter will be sent to OTC for public announcement. At maturity day, all bonds will be bought back in cash.</p> <p>(2) If the outstanding balance of our company's convertible company bond is 10% lower than the total original issued amount between a day and a month after our company issued the convertible company bond (Dec. 14, 2015) to 40 days before the maturity (Oct. 4, 2018), our company can send a 30-day "Notification to Bond Buyback" via registered mail on any day after the occurrence to</p>

	<p>bondholders listed at least 5 business days before the mailing day. (The time period is based on the mailing day, and the maturity day is the reference day for the Bond buyback. Also, the said period must not be the stop conversion period in Article 10. The bondholders who take possession of the bonds in any reason later will be informed by public announcement only.) A letter will be sent to OTC for public announcement. At maturity day, all bonds will be bought back in cash.</p>
Restricted Article	None
Institute of Credit Rating Institute, Date of Rating, Rating Result for the Corporate Bonds	Not applicable
Other rights attached	<p>As of the date of printing of the annual report, the amount of converted common shares (exchange or subscription), overseas depository receipts or other securities</p> <p style="text-align: center;">None</p>

	<p>Method of issuance and conversion (exchange or subscription)</p>	<p>Between a day and a month after our company issued the convertible company bond (Dec. 14, 2015) to the maturity (Nov. 13, 2018), bondholders can ask security trading company to notify Taiwan Depository and Clearing Corporation (TDCC) to make requests to our company's stock transfer agency for converting the convertible bonds to common shares of our company to our based on regulations XIV, XV, XIX, and XX, except when during company's: (1) the block closure period; (2) stock dividend issuance book closure date, cash dividend book closure date, or 15 business days before book closure day for the cash injection stock option to the right distribution reference day; (3) capital reduction reference day to one day before the capital reduction stock exchange.</p>
<p>The impact of stock issuance, conversion, exchange, or stock option on possible stock right dilution and shareholders' equity</p>		<p>(1) Assuming bondholders requested to convert all our company's issued convertible bonds to our company's common shares based on our company's bond issuance and conversion regulations, the largest share conversion number is 3,125 thousand with issuance amount NTD900,000 thousand and convertible price NTD288 . Thus, as of Mar. 31, 2016, our company's outstanding shares 79,492 thousand translates to a maximum stock right dilution ratio of 3.78%.</p> <p>(2) Based on the published 2106 first quarter financial statement, the net value per share is NTD53.26 (NTD4,234,021 thousand and 79,492 thousand shares). Assuming bondholders' request to convert all our convertible bonds to our company's common stocks based on our company's bond issuance and conversion regulations, the net value per share increases from NTD53.26 to NTD62.14. Calculation: <math>(\\$4,234,021 \text{ thousand} + \\$900,000 \text{ thousand}) / (79,492 \text{ thousand share} + 3,125 \text{ thousand shares}) = \\$62.14/\text{share}</math>, a positive impact for the shareholders.</p>
<p>Exchange and Bailment</p>		<p>Not applicable</p>

Organization	
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Information of convertible bonds

Type of Corporate Bonds		First Taiwan Domestic Unsecured Convertible Bond	
Year		2015	As of May 31, 2016
Item			
Market value of Corporate Bonds	High	NTD131.50	NTD124.00
	Low	NTD110.00	NTD110.00
	Average	NTD123.06	NTD114.79
Conversion price		NTD288.00	NTD288
Issuance (Processes) Date and Conversion Price when Issued		Nov. 13, 2015 NTD288.00	
Methods of Obligation Conversion		New share issuance	

**iii. Issuance of preferred stock: None**

**iv. Status of overseas depository receipt: None**

**v. Process of employee stock warrants: None**

**vi. Status for issuance of restricted new shares for employees: None**

**vii. New share issuance for acquisition or assigned shares: None**

**viii. Execution of Fund Program**

(I) 2013 Initial public offerings cash injection new stocks issuance program

1. Program Content:

(1) The total fund required for the program: To increase cash capital for IPO, our company issued 8,907 thousand shares with an issued price per share of NTD168. The fund raised was NTD1,496,376 thousand

(2) Resource of capital

Number of Shares	8,907 thousand shares
Par value	NTD 10 each share
Price at issuance	NTD168 each share at premium
Raised amount	NTD 1,496,376 thousand

(3) The plan's items and expected execution schedule of capital are as bellow:

Plan's items	Expected date of completion	Amount required	Expected execution schedule of capital		
			2015		
			Q1	Q2	Q3
Settlement of bank loan	Q2 of 2014	396,094	60,000	131,323	204,771
Increase operating fund	Q2 of 2014	1,100,282	330,085	770,197	-
Total		1,496,376	390,085	901,520	204,771

(4) Expected probable effects:

#### A. Repayment of bank loans

Our company plans to settle our bank loan with the NTD396,094 thousand of the raised fund. Based on the loan interests of the banks our company are dealing with the interests expense, which was expected to decrease \$8,820 thousand in 2014. The subsequent savings on interests are NTD23,945 thousand per year. From the financial perspective, our company's liabilities ratio drops from 56.74% in the first half of 2013 to 40.69% in the third quarter of 2014 after paying back the bank loan. Current ratio and quick ratio both increased dramatically. The positive results include bettering long-term fund stability, stronger mid- to long-term competitiveness, strengthening company finance structure and solvency, avoiding interests expense to reduce profits, bettering capital movement to remain competitive, lowering business and finance risks, bettering market competitiveness.

#### B. Enrichment of operating capital

As our company's business steadily developed, franchised stores and regional business centers increase. The ever-growing market requires operating fund to facilitate and brand image developments. Our company allocated NTD1,100,282 thousand to operating fund to increase current ratio, improve financial structure, more flexible capital movement, lower the capital reliance on other financial institution, lower company's financial burden, lower the liabilities ratio, increase current ratio, increase company's competitiveness, and lower corporate operating risks, and increase the capability to deal with the environmental risks.

## 2. Execution status

Plan's items	The execution up to 2015			Cause and Improvement Plan on Progress ahead of schedule or delay
	Disbursement amount	Expected	396,094	
Settlement of bank loan			Actual	396,094

	Execution schedule	Expected	100%	
		Actual	100%	
Increase operating fund	Disbursement amount	Expected	1,100,282	Executed
		Actual	1,100,282	
	Execution schedule	Expected	100%	
		Actual	100%	
Total	Disbursement amount	Expected	1,496,376	Executed
		Actual	1,496,376	
	Execution schedule	Expected	100%	
		Actual	100%	

### 3. Benefit assessment

#### (1) Settlement of bank loan

Items		Year	2013 (The year of Funding)	2014 (After funded)	Q3 of 2015 (Executed)
Financial structure	Ratio of liabilities to assets		31.62%	24.32%	22.93%
	Ratio of long-term capital to Real estate, factory building, and equipment		302.97%	290.56%	319.51%
Solvency	Current ratio		323.54%	282.01%	315.92%
	Quick ratio		292.38%	255.18%	265.11%

Source: The Company financial reports from 2013 to 2015 were audited and certified by the CPA.

Our company's 2013 cash injection increased fund of NTD1,496,376 thousand, and \$396,094 thousand of which was used pay back bank loan that was settled in 2014. After the cash injection, finance structure is improved, which was indicated by the decrease of our company's liabilities ratio from 31.62% in 2013 to 24.32% in 2014. It showed that the financial structure had been improved. Moreover, the annual interest expense decreased from \$16,025 thousand in 2014 to 0 after execution in the third quarter in 2015.

#### (2) Increase operating fund

Item	Year	2013 (The year of funding)	2014 (After funded)	Q3 of 2015 (Executed)
Basic Financial Data	Current assets	3,159,779	2,994,416	3,332,185
	Current liabilities	976,638	1,061,804	1,054,750
	Total liabilities	1,371,653	1,069,773	1,062,840
	Operating revenue	2,701,472	3,071,369	2,953,274
	EPS (\$)	9.70	9.51	9.29

Source: The Company financial reports from 2013 to 2014 were audited and certified by the CPA.

Our company's 2013 cash injection increased fund of NTD1,496,376 thousand , and \$1,100,282 thousand of which was used to increase operating fund. By the end of Mar. 2015, 59% was executed. After the cash injection, the strengthened financial structure can be seen in the substantial increase of liabilities to assets ratio, long-term capital to real estate ratio, and factory buildings to equipment ratio. Moreover, the effect of the operating fund increase can be seen by our company's operating revenue increase from NTD2,701,472 thousand in 2013 to \$3,071,369 thousand in 2014 with a growth rate of 13.69%.

#### 4. Justification to the schedule delay and practical improvement plan to influence shareholders' equity

The execution of operating fund increase with the total amount of NTD1,100,282 thousand should have been completed in the second quarter of 2014. The execution is accomplished in the third quarter of 2015. Because most of the operating fund was to be used for our subsidiaries in China, the delay was mainly caused by longer inspection process by the Foreign Exchange Administration Agency in China. The fund that has not been used is in the banks that our company deals with; thus, there is no significant impact on stock right.

#### (II) 2015 first Taiwan domestic unsecured convertible bond

##### 1. Plan content:

(1) Total capital required in the plan: NTD934,610 thousand

(2) Capital resource:

The 9,000 first Taiwan domestic unsecured convertible bonds were issued. The face value per bond was NTD100,000 . The bonds were full released by face value. The issuance period is three years.

The coupon rate is 0%. The total issuance amount is NTD900,000 thousand.

(3) Owned capital NTD34,610 thousand

(4) The plan's items and expected execution schedule of capital

Unit: NTD 1,000

Plan's items	Expected date of completion	Expected execution schedule of capital						Amount required
		2015		2016				
		Q3	Q4	Q1	Q2	Q3	Q4	
Purchased office building	Q3 of 2016	—	—	282,088	—	193,708	—	475,796
Established O2O E-commerce platform	Q4 of 2016	26,509	52,265	91,560	33,445	28,965	29,967	262,711
Established logistics center	Q4 of 2016	—	—	70,952	32,791	32,791	59,569	196,103
Total		26,509	52,265	444,600	66,236	255,464	89,536	934,610

(5) Expected Benefits

A. Purchase of Office Building

The company's main focus of operations is the mainland Chinese market, with subsidiary Chlitina (Shanghai) Marketing Limited as its head management center, under which 17 branches and 11 offices have been established to act as management centers of franchise stores spread throughout the various provinces of mainland China, supporting daily franchise store sales, beauticians training, as well as shop expansion-related matters. Apart from Chlitina's operational headquarters of Shanghai which has been purchased, the remaining branches and offices currently adopt a leasing form. For the expansion of the 'Chlitina' cosmetics chain brand in mainland China as a whole, in addition to ongoing expansion of franchise stores, the Company has begun supplementing this by setting up 'Chlitina' regular chain outlets to more deeply develop operations in key regions.

The Company has already contacted agencies in major cities in mainland China and assessed those suitable target locations, and intends to take the core business of Chlitina's Shanghai company to expand the area of branches by converting from renting them to buying them. Apart from saving on possible future rent hikes, providing a better working environment for our employees, and expanding space for display, storage and practical training classrooms, to improve the management and supervision of franchise stores in various regions, this also meets the additional management needs of newly established outlets. Relevant operations for this project are expected to be completed in 2016. It is estimated that savings on rental costs



for 2016 will total NTD3,251 thousand, with estimated savings on rental costs for each subsequent year of NTD3,583 thousand.

#### B. Building an O2O E-commerce Platform

The territory of the mainland China region is vast. The Company's existing physical store chain franchise business model has its regional limitations. In order to further expand and develop the penetration of the 'Chlitina' brand skin care cosmetics in mainland China, and expand the scale of operations of tie-in sales of other health food products, in addition to continuing to use the expansion of franchise stores and new regular chain outlets to improve physical store coverage, the Company intends to make inroads into e-commerce, attracting online shopping consumer groups, thus realizing full-time, non-regional marketing. It is expected that a total of 262,711 thousand (which includes 34,610 thousand of our own funds) will be invested in the Health Beauty Happiness O2O e-commerce outlet platform build and in marketing costs.

This investment is mainly to be used in building software systems, and the advertising and promotion needed for the initial build of the O2O e-commerce marketing method, large-scale regional seminars and start-up briefings, and other early market sales plans, in the hope of creating a new type of business model, and a steady increase in the operating revenue contribution in future years.

#### C. Building Our Own Logistics Center

The company currently has 11 distribution centers (including those owned by subsidiaries and those which are outsourced) in mainland China. Swift and smooth delivery logistics is one of the foundations on which the Company is able to use to set down deep roots in the franchise chain cosmetics industry. To cope with the increasing shipping demands of physical stores and e-commerce, and space at existing distribution centers becoming insufficient to meet demands, we intend to set up our own logistics centers in Shanghai, Chengdu, Dalian, Tianjin, Guangzhou, and elsewhere. It is expected that after building our own logistics centers, we will be able to achieve savings on logistics costs, and improve operational efficiency.

2. Execution status

Unit: NTD 1,000 ; %

Plan's items	Execution status		The execution up to Q1 of 2016	Cause and Improvement Plan on Progress ahead of schedule or delay
Purchase of Office Building	Disbursement amount	Expected	282,088	The Company has already purchased an office building in Chengdu, and is searching for a suitable site in Beijing. As finding suitable locations and negotiating prices is relatively time consuming, this project is currently still ongoing.
		Actual	138,912	
	Execution schedule (%)	Expected	59.29%	
		Actual	29.20%	
Building an O2O E-commerce Platform	Disbursement amount	Expected	91,560	As for the construction of this electronic commerce platform and O2O marketing and promotion, we continue to carry out it according to plan.
		Actual	67,131	
	Execution schedule (%)	Expected	34.85%	
		Actual	25.55%	
Building Logistics Center	Disbursement amount	Expected	70,952	As we are still looking for suitable sites to build a logistics center, we are not yet paying rent, renovation costs and other suchlike implementation costs, but still ongoing according to plan.
		Actual	3,299	
	Execution schedule (%)	Expected	36.18%	
		Actual	1.68%	
Total	Disbursement amount	Expected	444,600	As we are still looking for suitable sites for an office building and logistics center, and as finding suitable
		Actual	209,342	
	Execution	Expected	47.57%	

Plan's items	Execution status		The execution up to Q1 of 2016	Cause and Improvement Plan on Progress ahead of schedule or delay
	schedule (%)	Actual		
			22.40%	locations and negotiated prices is relatively time consuming, this has led to us being slightly behind schedule. On the whole, the plan is still progressing according to the originally planned rate of progress.

Note : The rate of exchange is the 2016 Q1 average spot exchange rate of Bank of Taiwan -CNY: NTD 1: 5.0464

### 3. Effect assessment

#### (1) Purchase of Office Building

The Company has signed a contract for sale with Chengdu East Hope Intertek Land Company Limited in Mar. 2016, and has already made real estate payments. Follow-up will still involves decorating to prepare it for use. And with respect to Beijing target offices, we are still bargaining with the owner of the premises. We are now actively seeking to purchase offices in Chengdu and Beijing. The savings in annual rent which can be generated can be expected to bring benefits.

#### (2) Building an O2O E-commerce Platform

The achievement rates of the Company's sales revenue and gross profits from O2O e-commerce platform still meet expectations. In the first quarter of 2016, affected by the long holiday in Feb., sales revenue and gross profits were relatively low, but on the whole, a synergy of business performance development and expansion has become apparent.

Unit: NTD 1,000

Items \ Year	2015			Q1 of 2016 (note 1)		
	Estimated	Actual	Achieved rate	Estimated	Actual	Achieved rate
Sales revenue	75,095	91,689	122.10%	47,617	40,624	85.31%
Sale gross profit	65,303	70,338	107.71%	41,427	32,872	79.35%
Net operating profit (loss)	(56,613)	11,136	note 2	(27,459)	(7,322)	note 2

Note 1: The rate of exchange is the 2016 Q1 average spot exchange rate of Bank of Taiwan -CNY:  
NTD=1: 5.0464

Note 2: The achieved rate cannot be presented because estimate or actual number is negative.

### (3) Building Our Own Logistics Center

As we are still looking for a suitable site for our logistics center, the benefits of not outsourcing logistics have not yet become fully apparent. This project is currently still actively in progress.

### 4. The Rationality for Being Behind Schedule, the Effect on Shareholders' Equity, and Whether There are Specific Improvement Plans

The main reason for implementation of items of this project being behind has been due to needing to find suitable locations for our office building and logistics center, and the time needed for the consultation meetings, evaluations, surveys, and so forth for the target sites being longer than expected. Thus, in the absence of suitable objects for bidding, the results of implementation are unable to be realized. Currently, fees for building an O2O e-commerce platform and marketing promotion have to be paid successively, but because part of the expenditure has not yet taken place, the results of the implementation are slightly behind schedule. The company is at present still progressing according to plan, so there has not been any significant adverse effect on shareholders' equity.

## V. Operational Highlights

### i. The business content

#### 1. Scope of business

In 1997, the company formally entered the mainland Chinese market. As of the end of Dec., 2015, through the franchise chains in 30 provinces, municipalities and autonomous regions, such as Shanghai, Guangzhou, Beijing, Chengdu, Dalian, Wenzhou, Qingdao and so on, we have established more than 3,400 franchise chain beauty salons. This is a middle to high-end large-type cosmetic chain organization in mainland China. The Company has a premium quality range of skin care products, which in addition to home use products, also includes professional skin care sets, providing customers who come to our franchise salons with a full range of cosmetic skin care products and the choice of professional treatment. Through the Company's first-class independent research and development as well as production capacity, superior product quality and professional skin care philosophy, we have established an excellent customer base and brand value.

1) The main operational contents:

- ① The research and development, manufacturing and sales of beauty products and care kits.
- ② The management and business expansion of franchise beauty chain stores.
- ③ All business items that are not prohibited or restricted by law, except those that are subject to special approval.

2) Revenue Ratio

Unit: CNY 1,000 ; NTD 1,000

Main products	2014			2015		
	CNY	NTD	%	CNY	NTD	%
Face care products	496,757	2,444,144	79.58%	542,920	2,732,622	62.19%
Body products	23,753	116,868	3.81%	16,897	85,045	1.94%
Aromatic products	2,650	13,038	0.42%	2,438	12,270	0.28%
Trademark income	6,485	31,907	1.04%	130,072	654,678	14.90%
OEM income	9,669	47,573	1.55%	121,107	609,556	13.87%
Other	84,924	417,839	13.60%	59,623	300,093	6.82%
Total	624,237	3,071,369	100.00%	873,056	4,394,264	100.00%

Note: Other incomes include special allowance income, related party income, beauty service income, and food products income, etc.

3) The company's current products

Product Category	Main Product Category	Main Purpose	
At Home Skin Care	Makeup Remover, Facial Cleanser, Toner, Essence, Lotion, Cream	Cleansing	Removing the five major waste byproducts of the skin surface, such as old accumulated dead skin cells, dust, oil makeup residue, oxidative rancidity of fat, and the salt from sweat.
		Hydrating	Fully hydrating the skin cells while suppressing the evaporation of water.
		Repairing	Regulating skin functions, delivering targeted improvements of problematic skin, and maintaining healthy skin.
		Moisturizing	Promoting the blood circulation of the skin, timely supplying nutrients and oxygen to the cells, promoting the repair and regeneration of the cells, and maintaining the smoothness and moisture of the skin.
		Protecting	Providing good sunblock and insulation and protecting and skin.
Professional Skin Care Line	Eye Care Series	By leveraging the active ingredients in the composite peptide and silk eye masks, immediate improvements to edema, pigmentation, and wrinkle problems can be delivered. By using the dedicated ancillary equipment at the same time, problems around the eye area such as dark under eye circles, bags under the eyes, and congestion and fatigue can be prevented and improved.	
	Anti-wrinkle Series	By leveraging the active ingredients in the tightening peptides and tourmaline stones, the firming and lifting effects in the contour of the face can be immediately achieved. By using the dedicated ancillary equipment at the same time, the slimming of the face, firming, lifting, and improvement of the skin's absorbability can be achieved.	
	Whitening Series	By leveraging the active ingredients in the Morus Bombycis Root Extract and ruby, the tyrosine amino acid activity can be suppressed externally and the pigmentation that's already formed can be improved internally. By using the dedicated ancillary equipment at the same time, the delicate whitening, lightening of spots, and the absorbability of the skin can be achieved.	
	Hydrating Series	By leveraging the active ingredients in the podophyllin and sapphire, the water in the skin cells can be deeply replenished and the moisture can be	

		firmly locked in. By using the dedicated ancillary equipment, the water can be deeply replenished, the moisture can be effectively locked in and the skin's absorbability can be enhanced.
	Naturex Series	The Naturex Series is 100% pure herbal essence derived from concentrated pure plant extracts. It uses the newest extract technology, targeting different skin problems to achieve more effective conditioning and improvement.
	Professional Beauty Salon Series	Specifically designed to target problematic skins, regardless if it's to prevent wrinkles, to replenish hydration, or to provide whitening, it can provide excellent improvement and prevention. It can be used as part of the home skin care routine, or can be introduced by using it in conjunction with the equipment at the clinics, or as a hydrating mask.
Aromatherapy	Essential Oils, Compound Essential Oil	<ol style="list-style-type: none"> <li>1. Strengthening beauty and skin care, improving skin immunity and delaying aging process.</li> <li>2. Soothing the mood and creating a pleasant spirit, relaxing the nerves.</li> <li>3. Protecting the health of the body by improving problems such as respiratory infection, reduced immunity, and endocrine imbalance.</li> </ol>
Body	Essential Oils, Lotion	<ol style="list-style-type: none"> <li>1. Unblocking the meridian system and enhancing the functions of internal organs.</li> <li>2. Improving deep tissue relaxation, blood circulation of the muscular tissues, soothing the body, mind, neck and shoulder region, and relieving back pain and inflammation symptoms.</li> </ol>
	Slimming Series	By using the active ingredients in the millet peppers in conjunction with organic health foods, internal detoxification and external body slimming can be achieved. By using the dedicated ancillary equipment at the same time and through the release of far infrared and seismic waves, decomposition of the cellulites can be accelerated, metabolism can be improved and excess water and fat can be removed from the body.

4) Research and development of new products

A. The development of anti-aging series products

In accordance with market and operating principles, the Company will be addressing the following issues in the new year: moisturizing, evening of the skin tone, delaying the onset of yellowish skin and wrinkles, and improving sallow and uneven skin tone due to aging.

B. The development of whitening products

Developing skin whitening products targeting women with dull complexion and pigmentation problems.

C. The development of E-commerce channel specific products

Developing economy pricing items targeting E-commerce channels.

## 2. Industry Overview

### (1) The current industry status and development

According to the Euromonitor research data dated Apr. 2016, the market size for beauty and personal care products had reached CNY 315.6 billion in Mainland China in 2015; the compounded annual growth rate reached 9.1% between 2009 and 2015. The overall market size for beauty and personal care products in Mainland China increased by 54.3% during the five-year span between 2009 and 2014, and among them, the beauty and personal care product kits grew by 99.0%, making it one of the fastest growing markets in the world.

#### 2010 – 2015 Beauty and Personal Care Products Product Category and Sales Volume

Unit: CNY one hundred million

Item \ Year	2010	2011	2012	2013	2014	2015
Baby and child-specific Products	65	76	89	104	121	141
Bath cleaning products	152	163	173	185	195	203
Cosmetics	148	166	181	205	226	251
Deodorant	5	5	6	6	6	7
Depilatory	3	3	3	4	4	4
Fragrances	38	42	46	49	53	56
Hair care products	355	388	422	450	465	476
Men's cosmetics	64	78	92	104	113	121
Oral health products	20	227	249	271	286	304
Oral health products (Excluding electric toothbrush)	200	222	244	265	280	297
Skin care products	1,005	1,150	1,269	1,390	1,507	1,608
Sunscreen products	32	37	41	43	47	50
Beauty and personal care kits	78	91	104	117	134	156
High-end cosmetics	362	426	474	525	569	616
General cosmetics	1,464	1,633	1,786	1,941	2,086	2,215



Item \ Year	2010	2011	2012	2013	2014	2015
Beauty and personal care products	2,045	2,302	2,526	2,756	2,961	3,156

Source: Euromonitor (2016/4)

#### 2010 to 2015 Beauty and Personal Care Products and Sales Increase Rate

Unit: %

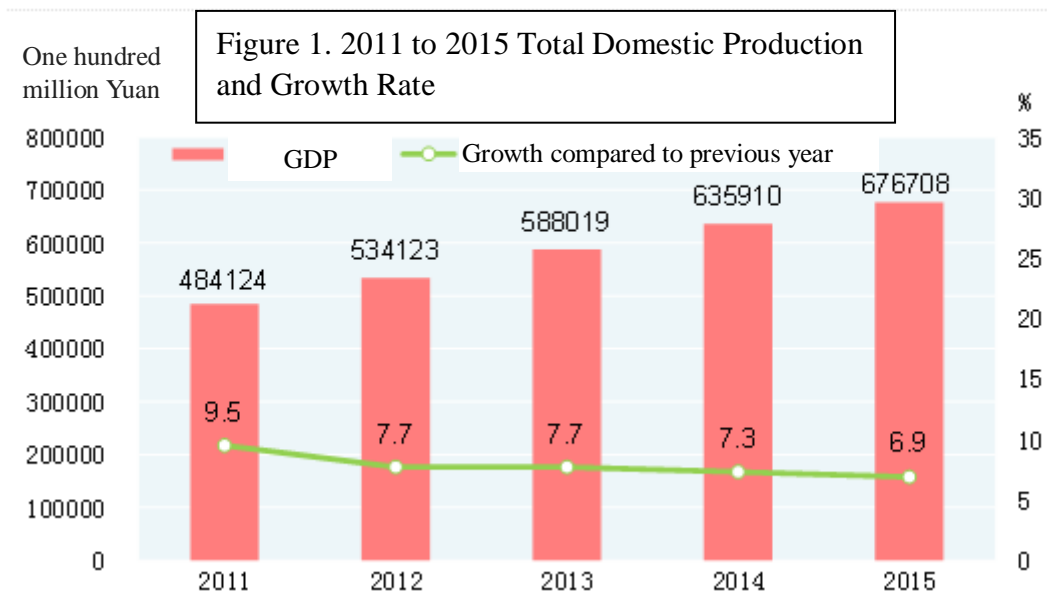
type \ growth rate	2014-2015 growth rate	2010-2015 compounded annual average growth rate	2010-2015 total growth rate
Baby and Child-specific Products	16.6	16.9	118.3
Bath cleaning products	4.3	6.0	33.6
Cosmetics	10.9	11.2	70.1
Deodorant	5.1	7.1	40.7
Depilatory	8.7	9.1	54.4
Fragrances	6.8	8.3	48.9
Hair care products	2.5	6.1	34.3
Men's cosmetics	7.6	13.6	89.4
Oral health products	6.4	8.3	49.0
Oral health products(Excluding electric toothbrush)	6.3	8.3	49.0
skin care products	6.7	9.8	59.9
Sunscreen products	7.9	9.5	57.2
Beauty and personal care kits	16.4	14.8	99.0
High-end cosmetics	8.3	11.2	70.3
General cosmetics	6.2	8.6	51.3
Beauty and personal care products	6.6	9.1	54.3

Source: Euromonitor (2016/4)

The Company's main regions for development are located in mainland China, and we have now been cultivating the mainland Chinese market for many years. With sustained economic growth in mainland China, the cosmetics industry has huge potential for the development of business opportunities. The main driving factors behind the development of the mainland Chinese cosmetics industry include the growth of GDP in mainland China, the urbanization rate and increases in per capita disposable income.

These factors are closely related to the demand for cosmetics, and have become the main driving force behind the rapid expansion of the industry and its thriving development.

According to the indications of international historical data, when per capita GDP exceeds USD3,000, consumption begins to enter a fast-growing channel. This is also the case for cosmetics consumption, but when per capita GDP exceeds USD20,000, the rate of growth will fall significantly, and enter into a stable period. According to the National Bureau of Statistics of the Peoples' Republic of China, in 2015 China's GDP was CNY67670.8 billion, a growth of 6.9% over 2014.



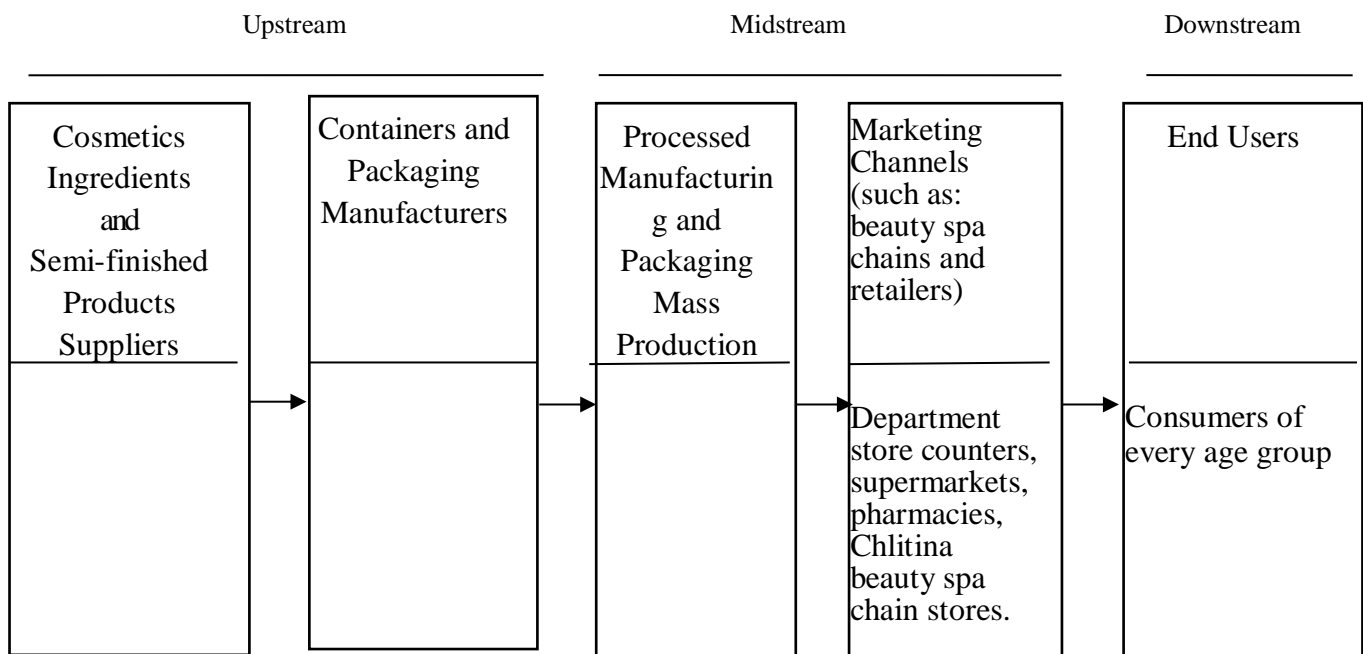
Source: National Bureau of Statistics of the PRC (2016/02/29)

In recent years, as mainland China's industry has gradually expanded to the second and third tier cities, stimulating rapid growth in the urban population, and relative per capita disposable income of urban residents has gradually risen. According to the PRC's National Bureau of Statistics, the per capita disposable income of urban residents in China in 2015 amounted to CNY21,966, an increase of 8.9% over 2014. The rise of purchasing power among urban residents, has led to increased demand for cosmetic products, thereby accelerating the development of the cosmetics industry.

## (2) The industry upstream, midstream, and downstream relationship

The company's main items of operation are the sale of cosmetic products such as age freeze, professional anti-aging salon products, professional skin care products, home health care products and so forth. Cosmetics manufacturers and brands are mid-stream manufacturers in the industry. This industry's upstream mainly consists of suppliers of raw materials for cosmetics, semi-finished product

manufacturers, containers and packaging product manufacturers, while mid-stream companies includes process manufacturing and packaging mass production as well as marketing channels such as agents, distributors, franchised chain stores, and so on. Downstream is consumers of all ages. The upstream, mid-stream and downstream relationships are as follows:



### (3) Development trends of various products

#### A. Future Product Development Directions

Since entering the Mainland China market in 1997, the Chlitina Group has been committed to developing and providing products that are most suitable to the skin care needs of “Chinese” and “Asians”. Particularly in the case of China where the country spans across a large area and there are major differences in the climate between the north and the south. The needs for maintenance and care from women who are into looking beautiful within the “various regions” cannot be satisfied by a single product produced by one-tier manufacturers in “Europe or America”. Therefore, the “Chlitina” Group introduced the product development concept of “professional care, in order to satisfy the skin care needs of individual customers”, and proceeded with the development of various professional differentiated products.

Based on this research and development concept, the product development directions for the “Chlitina” Group can be divided into the following major categories:

#### (A) Products focused on “Anti-aging”

“Anti-aging” has always been a dream pursued by humans since the dawn of homo sapiens; it was the case in the past and it will continue to be the case in the future, it won’t ever change. How to develop a series of comprehensive skin care products, specifically designed for Asian, especially Chinese, skins, in order to satisfy the needs of “anti-aging” in Chinese women, has become the highest guiding principle for product development for “Chlitina” Group.

As such, based on this single idea, the “Chlitina” Group developed a whole series of products by following the three major steps in skin care: “skin purification⇒repair⇒regeneration”, during its product research and development.

(B) Strengthen the in-clinic treatment results of “professional skin care”

Since “Chlitina” is a well-known mid to high-end professional beauty spa chain in China, in order to strengthen the differentiation and effectiveness of “professional skin care”, in addition to developing “home care” products, a whole series of beauty spa professional care kits based on “combination products” complemented by “professional equipment” were developed and introduced: “Hydraskin Intensive Expert Program”, “Contour Turn Back the Clock Expert”, and “Extreme Clear White Expert Program”. They are used in conjunction with “professional equipment” based on a non-invasive method to create the best skin care results in customers, in order to achieve the goal of “stopping time at the most beautiful place”.

(C) Provide comprehensive, around-the- clock products in order to create differentiations in service and products

To create differentiations in products and services in order to bring “customers” the maximum results in skin care. “Chlitina” Group covered the following areas in terms of products:

(a) Home Care Products

These products are focused on the personal basic skin care when at home to meet the care and repair of skin all day long. Home care products have the benefits of convenience and autonomy; the home care combinations that are custom created based on the recommendations of professional beauty consultants can take care of the personal skin care problems and provide non-stop all day maintenance. By extending the effectiveness of strengthening the professional beauty treatments, one can achieve more with less work. The primary product functions are “hydrating, repairing, and moisturizing”, where hydrating is primarily based on lotions that are excellent in hydrating and brightening the skin, which include the delicate classic EPO series that: helps with normalizing skin cell metabolism, maintains skin cell completeness and water retention, effectively improves aging and drying skin, moisturizing and locks in water, and repairs dryness; the premium and luxurious Fantasia series: in addition to providing deep moisturizing for the skin in the underlying layers of the skin, it can also

target the different types of skin to provide anti-aging and repair or deep whitening and maintenance results for the skin, and give the vitality the skin needs the most.

#### (b) Professional Beauty Salon Treatments

The emphasis is on “combination” products complemented by “professional equipment”, where the professional beauty consultant, with the help of professional equipment examination, discovers the causes for problematic skins, and designs a customized beauty treatment. Safely guided by high tech equipment, it has features such as safety, comfort, high efficiency, and is non-invasive. It also combines professionally trained techniques to truly bring about the significant results of skin care, in order to achieve the goal of “anti-aging”. The primary product functions are focused on “hydrating, activation, and smoothing wrinkles and lifting”. The product line series include the Hydraskin Intensive Expert Program Sets and the Extreme Clear White Expert Program Sets.

#### (c) Body and Meridian Care

The focus here is on the need for full body skin care and physical health. It is based on Chinese medicine concepts that Asians are familiar with, combined with European quantum medical technology, to fully deliver the results. The innovative concept of combination of the East and the West through skillful techniques of unblocking the meridian system, combines pure essential oils that have high human body absorption rate, to enhance deep tissue relaxation and blood circulation in the muscle tissues, soothes the mind, body, neck and shoulders, and relieves back pain and inflammation symptoms. The raw materials are sourced from quality natural plants originated in Europe and Northern America.

#### (d) Sensitive Skin Care Products

In response to skin problems caused by change in season, such as sensitivity, redness, peeling, and difficulty applying make up, the Company pays special attention to enhance the skin’s defense. Most skin care products that are inconsistent in quality can easily cause irritation and discomfort, and even lead to more severe skin diseases. Given the sensitive skin caused by improper maintenance practices and inadequate skin care products, the Company places particular emphasis on healthy skin structure, in order to take into consideration the need to enhance the skin’s protective barrier and strengthen the skin’s metabolism. Cream-based lead products that have protein and EG cream have been through the tests of time and market, are absolutely representative of this category.

By leveraging the products’ integrated use and complement, all-day non-stop skin care can truly be achieved. The products can provide the skin with care that fluctuate between deep and mild care, not only do the products provide comprehensive and consistent effectiveness, but they also allow the skin to have the appropriate rest and recovery. This fully demonstrates the product features of “professional,

personalized, comprehensive, all-day” that the Chlitina Group has in product development, prompting the skin to bring about the self-physiological phenomenon of “purifying, repairing, regenerating”, in order to further achieve the ultimate goal of “anti-aging”.

## B. Future Trend of the Beauty Market

The Mainland China market is the primary growth market for the Chlitina Group. Based on evidence from market research reports indicating that:

“Beauty Economy” possesses deep growth potential; “Beauty Economy” will be the industry with the quickest growth rate in the next 5~10 years. According to the research data presented in the Apr., 2016 issue of Euromonitor, the estimated compounded average growth rate for beauty and personal care products will reach 6.6% between 2015 and 2020, and it is estimated that the overall market size will reach CNY 435.2 billion by the year 2020.

Due to the fact that there has been significant increase in GDP in Mainland China in the past 10 years, the demand for high quality service has also correspondingly increased in Chinese consumers. This has enabled the professional beauty establishments to win the affirmation of the consumers in the mid to high level markets, based on their own professional standards of service, which will enable the beauty treatment institutions’ growth trends to be even more distinctive in terms of their professionalism and single functionality.

The country established beauty service management guidelines, which also in turn raised the level of demand for quality service in “beauty spas”, further raising the bar for entry for beauty spas, which helps in the development of large professional beauty chains, such Chlitina.

## C. Future Changes in the Company’s Operational Methods

In response to the rapid increase in demand for beauty care products and services in the Chinese market and consumers, the Company will also be implementing the following changes in terms of operational methods, in order to increase our competitiveness:

### (A) Strengthen “Market-End Training” Abilities

In light of the vast marketplace size in the Mainland China market, local customs and skin condition differences, with the continuous increase of franchise stores across the country, the management of the chain store brand needs to have “localized” thinking and servicing methods. The training that the Company has adopted is a hierarchical model of “Headquarter Advanced Training” and “District-based Educational Guidance”. The headquarter will arrange, according to plan, senior lecturers to conduct

educational training sessions on new product knowledge and new store opening guidance, based on market operating principles, which will include the following contents: “corporate culture”, “brand image”, “strengthening products”, “store management”, “selling techniques”, and “career planning”, in addition to a variety of other classes. Once someone passes the headquarters’ assessment, the lecturers in each district who have passed the assessments will then duplicate and transfer the teaching of the course contents, depending on the situations of the stores belonging to each district (such as climate, environment, and local customs and practices), in order to achieve the dual goal of “professional unification” and “district-based educational guidance”.

The hierarchical model of “Headquarter Advanced Training” and “District-based Educational Guidance” can effectively reduce staff costs associated with transportation and time. In addition to substantially reducing enterprise operational costs, this can also simultaneously increase the motivation of learning on the part of the staff and the learning can be quickly applied to actual store operations, to further realize the marketing strategy.

#### **(B) Dual Focus on Franchise Chain and Directly Operated Systems**

Due to the fact that “Quality Service is a key success factor; the Company has sped up its operational layout in 2<sup>nd</sup> and 3<sup>rd</sup>-tier cities. The company has also collaborated with several provincial vocational schools to conduct cooperative education, and the training and selection of “beauty consultants”. The Company also hopes to use “Directly Operated Stores” as the basis for expansion into the 2<sup>nd</sup> and 3<sup>rd</sup>-tier cities, in order to speed up the expansions for the 2<sup>nd</sup> and 3<sup>rd</sup>-tier cities.

#### **(C) Increase Product Research and Development Capabilities**

Quality products are the best guarantees for winning in the marketplace. The Company must strengthen its own research and development capabilities and speed, and attract all kinds of industry talents.

#### **(D) Diversified Management**

With the development of E-commerce and the Internet, consumer habits are imperceptibly changing as well. Within such an environment, Chlitina is searching for its own sales model, in order to increase the profitability of the franchisees downstream, by leveraging the Internet to achieve diversification in management.

### **(4) Competitive Landscape**

#### **A. Market Size Differentiation**

The impacts of increased domestic consumption and inflation in China have caused business real estate prices to skyrocket, and the surge in growth of store openings, causing the formation of barriers to entry for rapid store expansions. As a result, the Company's competitive advantages of its current market size of 3,400 plus stores and its annual growth rate will not be easily surpassed by its competition.

#### B. Product Research and Development Capabilities Autonomy

When the Company was established in 1989, the Company was the first to introduce the "PH5.5" skin care product research and development concept. This concept has gradually been positioned as the direction for product development by international first-rate manufacturers since the year 2000, fully demonstrating the Company's research and development capabilities. Compared to other competitive brands in China that rely heavily on externally purchased products as their primary mode of operation, the Company's autonomous research and development capabilities not only respond better to customer needs, but also provide an advantage for the Company over its competitors.

#### C. Brand Advantage

In Nov. of 2011, the Company's brand-named "CHLITINA" and the corresponding Chinese brand-named were both given the "Famous Chinese Trademark" title from the State Administration for Industry and Commerce of the People's Republic of China, making the Company the only enterprise to receive the "Famous Trademark" title in the beauty chain industry.

### 3. Technology and R&D Overview

#### (1) The Level of Technology and Research Development of Operated Businesses

The Company combined its formula design with the process technology to develop product formulas that are differentiated from the marketplace; the texture and efficacy cannot be duplicated. This is very different from the majority of the cosmetics companies in the marketplace whose R&D departments rely on the formula provided by the raw materials suppliers, where the origin of the raw materials is limited to specific vendors, they are unable to change on their own, and are unable to control costs. The rich formula development experience allows for the design of products with appropriate pricing based on the market pricing positioning; the process technology allows for a smoother production process, which results in more stable quality and in turn increases production efficiency. In addition, in order to have a better grasp of the fashion trends in Europe and the Americas, the Company has signed a contractual research agreement with the FP Consultants Company, a research and development institute in France.



The primary products for the Company, which include professional skin care and maintenance products and home care products, have all been self-developed. The main development focus for the Company has been committed to the areas of professional beauty products, personal skin care products, aromatherapy, and products for spa use.

(2) Research Development Personnel and Their Education and Experience

As of the end of Mar. 2016, a total of 10 R&D staff, which are college degree and number of employees and educations are as follows:

Item	Number at end of period	Distribution of educations		Average seniority
		Collage	Master	
2014	7	3	4	8.69
2015	10	5	5	7.40
Mar. 31, 2016	10	5	5	7.63

(3) R&D expenses invested in the last 5 years

Unit: NTD 1,000 ; %

Year	2011	2012	2013	2014	2015
R&D Expense	6,892	10,698	15,171	14,967	17,729
Net of operating revenue	1,953,625	2,408,559	2,701,472	3,071,369	4,394,264
Net operating revenue ratio to R&D expense (%)	0.35	0.44	0.56	0.49	0.40

(4) Successfully developed skills or products in last 5 years

Year	Development Items/Name
2011	Pure Nutritious Exfloiance, Clean Facial Repair Essence, Collagen Body Lotion
2012	Body Sculpting Series (Massage Cream, Essence Gel, Firming Cream)
2013	Instant Rejuvenating Eye Expert Program, Advanced Lightening and Whitening Program
2014	Delux Renew Firming Cream, Taiwan Directly-Operated Salon Exclusive Products (Hydra Cleansing Fluid, Shea Butter Facial Massage Cream, Gentle Makeup Remover, Chamomile Body Scrub, Seaweed Skin Softening Powder, Extreme Soothing Body Mask, HA Intensive Boosting Serum, NMF Intensive Boosting Serum, 9 Peptides Intensive Boosting Serum, Marigolds Intensive Boosting Serum, Anti-wrinkle Peptide

	Intensive Boosting Serum, Madelic Intensive Boosting Serum, Marigolds Herbal Mud-Mask Repair, Witch Hazel Herbal Mud-Mask Repair, Silky Body Lotion, Magic Body Slimming Gel)
2015	<p>Delux Renew Firming Cream (China)</p> <p>VFace Series (Lifting Milky Lotion, Lifting and Intensive Serum, Lifting Serum Concentrate, Lifting and Repairing Mask)</p> <p>Value-Priced Masks (CHLITINA Lupine Moisturizing Mask, CHLITINA Nasturtium Brightening Mask, CHLITINA Blue Lotus Refreshing Mask, CHLITINA Bletia Anti-Aging Mask, CHLITINA Purple Ginseng Anti-Blemishing Mask)</p> <p>CHLITINA PURESKIN SERIES (Aqua Toner, Moisturizing Emulsion Lotion, Moisturizing and Repairing Eye Cream, Aqua Nourishing Essential Cream)</p> <p>Sun Passport Sunscreen SPF50+ PA++++ (Made in Taiwan)</p> <p>Salon Series (CHLITINA HA Moisturizing Serum, Witch Hazel Herbal Mud-Mask Repair, CHLITINA Hydra Cleansing Fluid, CHLITINA Marigolds Herbal Mud-Mask Repair, Seaweed Skin Softening Powder, Chlitina Regenerating Intensive Boosting Treatment, Chlitina Moisturizing Intensive Boosting Treatment, Chlitina Sebum Control Intensive Boosting Treatment, Chlitina Soothing Intensive Boosting Treatment, Chlitina Whitening Intensive Boosting Treatment, Chlitina Silky Body Lotion, Chlitina Shea Butter Facial Massage Cream, Chlitina Gentle Makeup Remover, Chlitina Extreme Soothing Body Mask, Chlitina Chamomile Body Scrub, Chlitina Magic Body Slimming Gel)</p>

#### 4. Business Development Plan of Long-and Short-terms

##### (1) Short-term plan

- A. Continue to deepen the brand essence of “Women, Love Bravely”, protect the high quality and noble brand image, increase brand awareness, collaborate with the media to continue brand exposure the release effect and large-scale marketing events, and increase franchisee “stickiness” and customer loyalty.
- B. Respond to different consumer groups’ product needs and advanced technology, introduce new products to the marketplace in a timely matter, and aggressively unleash the advantage of professional product line. Target more consumer groups to develop professional products, from facial care products to maintenance treatments, and extending it to health care products and treatments, in order to establish a “beauty and health” “from the inside out” product concept.
- C. With the Mainland continuing to depend the process of urbanization, the consumption power and consumer needs continue to grow in the 3<sup>rd</sup> and 4<sup>th</sup> tier cities. The Company will deepen its excavation

of market potential, and aggressively expand the 3<sup>rd</sup> and 4<sup>th</sup> tier markets in the Greater China region to speed up store expansions, in the hope of realizing brand entrenchment.

- D. Further strengthen the training mechanism and elevate the service techniques of beauty consultants as well as franchisee profitability; unleash the advantage of the franchise stores' high-end product line coupled with professional services, and increase the franchise stores' attractiveness to the consumers.
- E. Aggressively expand new channels, especially E-commerce channel development, and reduce the consumer distance in terms of time and space. Adopt a diversified marketing approach, in order to achieve "fast, efficiency, and precision". Develop products targeted at young people and home products in order to expand on the width and length of the product chain, and achieve channel diversification. Cover more consumer groups, meet different consumer needs, expand market size, and maximize shareholders' equity.

(2) Long-term plan

- A. Increase R&D capabilities and coordinate with specific channels and various consumer groups to continue developing professional, high-end, and high quality products. Be the leader of industry trends and strengthen the Company's core competitiveness within this industry.
- B. Continue to depend the brand essence, expand the brand influence, and strengthen consumer loyalty and franchise store stickiness.
- C. Respond to China's pace of urbanization, continue to develop 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> tier cities and potential markets, and discover potential consumer needs so that they become the strong momentum behind the Company's future sales growth.
- D. Speed up the expansion of E-commerce channels and realize full-time, regionless marketing to further attract younger consumer groups. Satisfy consumer needs to the full extent and continue to expand the scale of the business.
- E. Once the Chinese franchise chain business has reached operational maturity, by leveraging the powerful R&D capabilities, the high level of product quality, and the excellent brand image, continue to play out the brand radiation effect and the product scale effect. Establish a multi-brand and multi-channel strategy and expand into overseas territories in a timely manner, in order to allow CHLITINA to become a multi-brand and multi-channel international brand.

**ii. Marketing and sales overview**

**1. Market analysis**

1) Operating status by areas

Unit: CNY 1,000 ; NTD 1,000

Item	2014			2015		
	CNY	NTD	%	CNY	NTD	%

Mainland China	601,464	2,959,322	96.35%	843,554	4,245,775	96.62%
Other (note )	22,773	112,047	3.65%	29,502	148,489	3.38%
Total	624,237	3,071,369	100%	873,056	4,394,264	100%

Note: Others including selling on Taiwan and Hong Kong

## 2) Market share

According to the research data presented by the April, 2016 issue of Euromonitor, the sales volume in China for beauty and personal care products reached CNY315.63 billion in 2015. If the Company's 2015 annual revenue of CNY 870 million were used for calculation, the market share is roughly 0.3%. In addition, the sales volume for skin care products (including body care, facial care and hand care) reached CNY 160.82 billion in 2015 for China. If the Company's 2015 annual revenue of CNY 870 million were used for calculation, the market share is roughly 0.5%.

In addition, according to the Euromonitor industry research institute, the sales volume is calculated based on the end product retail price, and the aforementioned revenue for the Company has not included the income derived from services rendered by the franchise stores to the end consumer, and it's not calculated using the end product retail price. If the Company's sales volume was calculated based on the end market retail price, but not including the income from beauty services rendered by franchise chain stores to end consumers, the 2015 annual sales volume would be approximately CNY2.03 billion, according to the Company's internal calculations, which is approximately 0.6% of the Chinese beauty and personal care products market share and approximately 1.3% of the Chinese skin care products market share.

The beauty brand CHLITINA that is under the Company's umbrella relies on the franchise system of operation to provide professional beauty services, and quickly expanded across the marketplace. It is now a rather large scale beauty chain in China, and plays a significant role in the Chinese beauty and skin care market. With the great market development potential of the Chinese beauty industry, the economic development and increased income enable the consumers to have a growing concern about brand image, product quality and effectiveness. The Company controls the entire process of production, from the upstream beauty skin care product formula research and development to the production and packaging of skin care products, all the way to the downstream beauty skin care product sales. Therefore, the Company fully controls the operational value, from R&D, production, sales, brand, to the sales channels; it possesses the complete advantage of industry chain and vertical integration.

The Company fully grasps the brand advantage, has broad and comprehensive sales channels and strong product development capabilities. It has gradually set up competitive barriers and advantages in the highly competitive Chinese beauty and personal car product marketplace, and the

future market share is expected to grow year over year. The market share for the Chinese beauty and personal care products is still being led by the international brands, with P&G and L'Oréal being the biggest market leaders. The Chinese skin care product market share is currently led by well-known international brands in terms of market development; the top three brands, which are P&G, L'Oréal and Shiseido, make up nearly one-third of the market share.

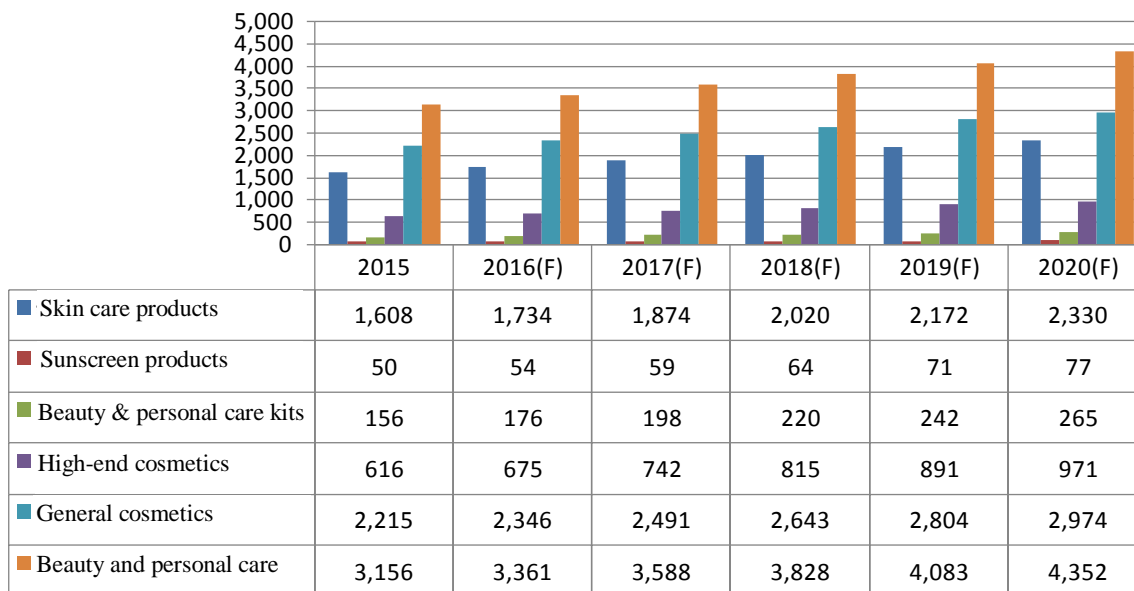
### 3) Future Market Supply and Demand and Growth

#### A. Beauty and Personal Care Product Market

The Chinese beauty and personal care products industry has over thirty years in development. According to the research data presented by the Apr. 2016 issue of Euromonitor, the market sales volume compounded annual average growth rate reached 9.1% between 2010 and 2015, and estimates that the compounded annual average growth rate would reach 6.6% between 2015 and 2020. It also estimates that the overall market size would reach CNY435.2 billion by 2020, where the growth rate shows an increasing trend and that the Chinese beauty and personal care products market still possesses considerable room for potential development and size expansion. With a growing economy, and the increase in consumer income level and consumer awareness, the Chinese beauty and personal care products market is rapidly expanding, becoming one of the fastest growing markets in the world.

2015-2020 Beauty and Personal Care Products Category and Sales Volume Estimates

Unit: CNY one hundred million



Source: Euromonitor(2016/4)

Currently the Chinese cosmetics market is still showing extremely fierce competition, and can roughly be divided into three marketplaces based on price: high-end cosmetics (retail price at CNY200 and up), mid-tier cosmetics (retail price at CNY 100-200) and cosmetics for the masses (retail price at CNY 100 or less).

The high-end cosmetics market is primarily led by international brands such as Lancome, Estee Lauder, Guerlain, and Channel. Their primary customer base is the consumer groups at the top of the pyramid; the mid-tier cosmetics market foreign brands still possess very strong competitiveness, and the primary brands include Olay, L'OREAL PARIS, and Shiseido; the cosmetics for the masses market is comprised of both foreign brands and local brands, and the target customer group for these types of brands is primarily made up of mid to low income consumer groups, where the products are primarily sold through channels such as box stores, supermarkets and specialty stores. The primary foreign brands include NIVEA and POND'S, and the local brands include Chando and TJOY.

According to the research data presented in the Apr. 2016 issue of Euromonitor, the primary source of sales growth for the beauty and personal care products in China was mainly driven by sales of beauty and personal care treatment sets and skin care products. The primary reasons were attributed to the overall good economic environment, increase in disposable income, combined with increasingly innovative products, thereby allowing the consumers to display a preference over buying more expensive skin care product sets, and driving the marketing management and sales growth.

According to other research data presented in the Apr. 2016 issue of Euromonitor, the compounded annual average growth rate and the overall growth rate for high-end skin care products and high-end cosmetics products will be higher than the growth rates for the skin care and cosmetics products for the masses between 2015 and 2020. The Company's products' unit price is in the high-end cosmetics products' price range. The Company has been developing the beauty chain market for many years, and its products and services have received strong affirmations from the consumers. The continued increase in future sales growth rate for the high-end cosmetics products will help the Company in its product sales and overall operational scale expansion.

2015-2020 High-End Cosmetics Products and Overall Cosmetics Products Growth Rate Comparison

Products	Growth rate (%)	2015-2020 compounded annual average growth rate	2015-2020 total growth rate
High-end skin care products		10.2	62.2
General skin care products		6.8	38.9
High-end cosmetics		8.6	51.2
General cosmetics		7.8	45.7

Source: Euromonitor(2016/4)

## B. Skin Care Products Sub-Industry Development

According to the research data shown in the Apr. 2016 issue of Euromonitor, skin care products make up the largest sub-industry within the Chinese beauty and personal care products market. The 2015 market size reached CNY 160.82 billion, and the four primary categories that were analyzed included body, facial and hand care, and skin care sets, with facial care products making up the lion share of the market size, at around 88.2%. It is also estimated that the compounded annual average growth rate for facial care products will reach 7.2% between 2015 and 2020.

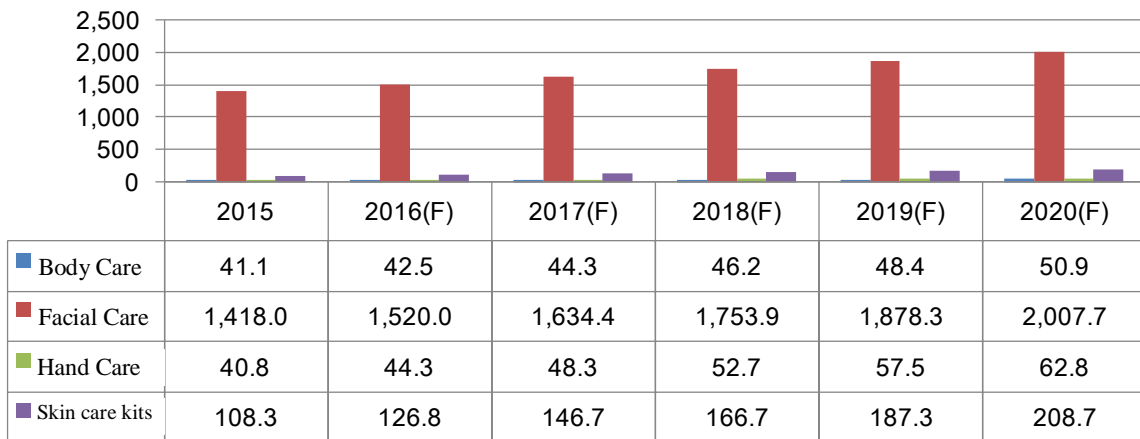
2015-2020 type of skin care products and expected products growth rate

Products	Growth rate (%)	2015-2020 compounded annual average growth rate	2015-2020 total growth rate
Body Care		4.4	24.0
Facial Care		7.2	41.6
Hand Care		9.0	54.1
Skin care kits		14.0	92.6
Skin care products		7.7	44.9

Source: Euromonitor(2016/4)

According to the research data shown in the Apr. 2016 issue of Euromonitor, the Chinese skin care product market size will reach CNY233.01 billion by the year 2020, and the compounded annual growth rate will reach 7.7% by the year 2020, where facial skin care products will make up the majority of that growth, estimated to reach CNY200.77 billion by the year 2020, representing roughly 86.2% of the overall skin care products market.

Sales amount: CNY one hundred million



Source: Euromonitor(2016/4)

### C. The Development of Beauty and Personal Care Products Market in China by Region

According to the Apr. 2015 issue of Euromonitor, in terms of the analysis for the beauty and personal care products market in China by region, within the five years between 2015 and 2020, the Southern, the Northeastern and North, and Eastern regions of China will continue to be the main core battle grounds. The market size for the Eastern region will reach CNY 126.48 billion by the year 2020; the market sizes for the North and Northeastern, and Southern regions will reach CNY 112.31 billion and CNY 89.98 billion, respectively. The aggregated market size of these main regions represents roughly 75.5% market share of the total beauty and personal care products market in China. As the second and third tier cities in China continue to gradually grow in their consumption power, these cities will become the driving force for consumption growth for the beauty and skin care products, and will support the continued rapid growth of the beauty skin care market. Therefore, given the increase in income level and the elevation in consumer awareness, the consumer spending by Chinese residents on beauty skin care products will show a long-term upward trend.

### D. The Development of Beauty Chain Industry in China

Currently, the beauty market in China is still in a development phase that is unregulated and immature. The industry lacks intensity in management, the market competition is in a state of disorder, the operation of beauty spas has not reached a certain scale, and the quality of employees is uneven. The numerous factors contribute to the difficulty of the whole industry's credibility being able to reach a certain level. Hence, through the actual implementation of the chain store operating concept, quality products and services can be provided, and those beauty chain brand operators that have a comprehensive and a favorable operating mechanism would start to gradually lead the development of the beauty market.



Those chain store operators that have a professional management talent team, a comprehensive franchise store management and training system, a complete management model, a complete beauty and cosmetics product line combination, and an excellent corporate image with a higher brand awareness, will have the capabilities in leading the market development, and will be more likely to stand out in a fiercely competitive marketplace.

The Company is a professional beauty and skin care chain store brand. The operating model and channel use the beauty spas as its channels. Through the professional services provided by the beauty centers, product value and reliability are enhanced. The beauty centers also provide comprehensive skin care treatment consultation, creating a professional image in the minds of consumers, and it is vastly different from the average consumer cosmetics operating model. The overall beauty market is currently rapidly growing in China, coupled with the Company's operating model avoids being in direct competition with major foreign brands, would give the Company an advantage in terms of expanding its operations.

#### 4) Competitive strength

##### A. Market Differentiation

Due to the rise in domestic consumption power in China and the effect of inflation, commercial real estate prices have soared, which has also contributed to the growth in the costs of opening shops and stores, forming an entry barrier for rapid store expansion. However, as of the end of Mar., 2016, the Company had a market scale of 3,496 stores in mainland China and 234 in Taiwan. The scope of services ranged from the densely populated cities of the southeast coast, to the northwest region, all able to enjoy Chlitina's unified specification excellent service. We have already become an indicative market brand on the mainland Chinese market and a scaled-up enterprise, which integrates systematic regional management, effectively reducing the relative cost of opening shops able to immediately begin market operations. Through a big get bigger magnetic effect, the expansion of operational bases has been accelerated, fully ensuring a leadership in market size, which is not easily surpassed by rivals.

To cope with to the overall distribution of operations in mainland China, and integrate the current degree of brand awareness and influence of first-tier cities, having sufficient energy to develop future second and third tier city markets, including those regions of rapid economic development, such as Suzhou, Wuxi, Qingdao, Ningbo, Foshan, Wuhan, Dongguan, Dalian, Nantong, Changzhou, and so on, through unity of service specifications and brand quality, we genuinely permeate lifestyle service spheres and establish local brand reliance on consumer trends and create new market state of affairs.

##### B. Taking Control of Product Development Capabilities

The Company has extensive experience in formula development, and can design products according to market price and position that best meet cost-effectiveness. We have a range of high-quality products groups, which in addition to home use products, also include professional care sets able to provide professional skin care therapy courses. Of these, the most popular home use products are the EPO series.

The Company possesses its own R & D capabilities and a complete line of products able to meet the demands of Asian skin and the vast mainland market. We develop various tailor-made high quality products, made to suit different climate zones and individual skin conditions, which is a relative advantage over our competitors. And to master the fashion trends of Europe and the United States, we have signed contracts commissioning the French company FP Consultant to carry out research and development, integrating trends in advanced skin care products in Europe and America in order to establish leading-edge technology products.

The company uses formula design to match manufacturing process technology development and market segmentation by product formulation type. Whether in terms of quality or efficacy, these cannot be replicated. This is very different from most of the R & D departments of cosmetics companies on the market, who rely on raw material suppliers to provide formulas, using raw materials which are subject to vendor-specific limitations, and which they cannot change on their own, and have no control over costs. At the same time, our production plants have been awarded the dual certification of Britain's Intertek GMP certification, and ISO 9001, winning recognition of their quality, which is combined with advanced vacuum emulsifying mixing processing and continuous cooling systems, high shear mixing process, the micro-jet impingement high pressure homogenization processing, and other suchlike production technologies to ensure superior quality.

### C. Advantages of Our Own Brand

Brands are a reflection of the core values of the product or enterprise. Chlitina itself has cultivated the mainland market for many years, and has a high degree of renown on the market as a high-end brand with an excellent reputation. With respect to consumer habits, our products have a special implication of personal taste and status. We are a successful story our peers in the industry have attempted to imitate and follow suit in droves, and we enjoy friendly cooperative relations with various sectors; this is a stable corporate model with a complete operational foundation.

### D. Quality Training Capabilities

Training is an important factor in maintaining quality of service and winning the approval of consumers. The Company has 25 training bases in mainland China and Taiwan, making it the organization with the greatest training capacity among China's high-quality cosmetic chains, with training

academies able to accommodate more than 2,000 people. From 1997 up to the present, with the aim of providing high quality training for professional beauticians, and with continuous career development as the keystone of course planning, we have established a three-stage elite training system for beauticians, which consist of Basic Training, Beauty Ambassador, and Advanced Adviser phases. Course content, which is designed according to different customer bases, includes: corporate culture, beauty treatment planning, image-creation for individual professionals, education for developing lecturing abilities, customer psychology and response treatment, store management practices, basic / advanced products and general skin care skills, advanced warehouse management and marketing capabilities, high level seminars in advanced business development, new products and skin care knowledge.

At the same time, with respect to those business operators who would like to join the franchise, suitable systems training is carried out according to whether they are new entrants or existing business managers, and those relatively more mature franchisees on the market are encouraged to share their successful experiences, so that new franchisees are able to get their businesses on track as quickly as possible, and begin market operations. In this way, business risks are reduced, and specification management is effectively unified.

#### E. Vertical Integration of the Industry Chain

The Company controls every stage in chain, from the upstream development and production of skin care formulas, to skin care product manufacturing and packaging, and then on to the downstream sales of skin care products. The Company's trading value includes R & D, production, marketing, branding and channeling, forming a complete integrated industry advantage.

#### F. Swift and Smooth Delivery Logistics

To cope with a market covering a vast territory, and to ensure that products are genuinely able to quickly reach all branches, the company has set up 11 distribution centers around the country, which operate according to their respective service regions, in accordance with the Company's unified specifications.

### 5) The long-ranged view of advantage and disadvantage development factors and countermeasures

#### A. Advantage factor

##### (A) Cluster Effect of Well-known Franchise Brands

Mainland Chinese cosmetics market brand competition is fierce, with some good operators and some bad. However, under the long present shadow of products traded by unscrupulous merchants, in their choice of goods or services the mainland Chinese public are more inclined to select well-known brands. Apart from being able to be regarded as having a variety of safety reasons as the basis for this, at

the same time it is also an expression of individual or corporate taste and value. Chlitina has spent many years cultivating the mainland Chinese market and establishing firm brand loyalty. More than three thousand physical operating base currently on the mainland, effectively enhance the general public's recognition and attraction towards our products, while at the same time through their clustering effect, they wield a progressively bigger magnetic effect, steadily expanding our business territory.

#### (B) Cultivation of Corporate Image

In 2011, Chlitina won the 'Well-known Chinese Trademark' award, the highest corporate trademark recognized by the National Bureau of Statistics of the Peoples' Republic of China. Well-known Taiwanese brands which have been awarded this honored include Acer, BenQ, President, Giant...and so on. It demonstrates that 'brand awareness', 'reputation', and 'customer service' have generally been recognized by the state and by consumers.

At the same time Chlitina has also spared no effort with respect to its corporate social responsibilities, actively participating in and organizing social concern activities and literary sponsorship. We have used the enterprises' own resources to carry forth a selfless spirit of 'love and sharing', so that people in need can feel society's warmth, and our setting an example by first-hand public investment has won an enthusiastic and positive response, implying that our corporate brand is well recognized by the public and the government, and has an absolute niche point on the market.

#### (C) Increase in Domestic Demand in Mainland China Stimulates Economy and New Urbanization Strategy

In 2014, the economy of the mainland China region entered into a 'new normal'. China's economic growth had slowed; according to a '2015 National Economic and Social Development Statistics Bulletin' issued by the PRC's National Bureau of Statistics, the mainland region's GDP growth rate was 6.9%. Tertiary industries accounted for 50.5% of domestic GDP, the first time they had exceeded 50% of the total. Driven by various factors such as industrialization, the spread of information technology as well as consumer upgrading, the service industry showed strong growth. Tertiary industry value added over the same period of the previous year grew by 8.3%. Urbanization is still a national development strategy. The urban resident population accounts for 56.10% of the total population, and per capita disposable income of urban residents grew by 8.9% over the previous year. Limiting to enterprises similar to the above, retail sales in cosmetics were up by 8.8%. Also, according to a Euromonitor International report issued on the relevant industry, 2015 to 2020 future of China's cosmetics market compound annual growth could reach 6.6%, the process of urbanization and per capita disposable income of urban residents boosting the Chinese consumer goods market. There is great potential especially in the cosmetics industry and the

services sector. Solid growth in GDP is expected, and the macroeconomic environment continues to improve, providing the Company with strong growth momentum and opportunities for expansion.

#### (D) Expert-level Personnel Education

Chlitina has an education and training center of approximately 6,000 square meters of in Shanghai's Songjiang district, set in an elegant European building with modern hardware space, including professional classrooms and centrally managed accommodation, offering the most professional and advanced services to develop knowledge and training. From the moment new students enter, correct concepts and brand familiarity is established, and the curriculum is planned around the keystone of career continuity. It is taught in a three-stage elite training system for beauticians, which consists of Basic Training, Beauty Ambassador, and Advanced Adviser phases. Course content, which is designed according to different customer bases, includes: store management practices, basic / advanced products and general skin care skills, advanced warehouse management and marketing capabilities, high level seminars in advanced business development, new products and skin care knowledge, providing superior quality training for professional's beauticians. Providing a consistently high quality service for the manpower growth requirements of retail markets, and utilizing a synchronized upgrade of software and hardware, can wield a very pronounced effect on reputation and brand visibility. In a highly competitive market, Chlitina has progressively accumulated a potent market growth.

#### (E) Service Management Standards for the Cosmetics Industry

Chlitina's requirements regarding institutional guidelines, are in line with the service management practices determined for the beauty industry by mainland China's government. Through organization education and guidance, we are able to carry out more stringent requirements, in order to dominate competition in the beauty industry.

#### (F) The Company's Own R & D Capabilities

##### a. Basic Research

The latest skin physiology literature and research reports are constantly collected and analyzed by R & D personnel with a wealth of experience in the field, to serve as a basis for research and ensure the efficacy and forward-looking nature of our products. This includes the mechanisms of aging, the causes of melanin biosynthesis, skin moisture retention and reconstruction functionalities, allergic reactions and immune barrier functions, and other suchlike biochemical pathways. For each biochemical reaction, we search for the antagonist, to stimulate or inhibit the effective components of each biochemical reaction, in order to improve the strengthening and comprehensiveness of the product formula functionality.

#### b. Pharmaceutical Agent-type Research

Through expertise in fields such as interface chemistry and colloid chemistry, flexibly employed in different pharmaceutical agent formulas such as soluble, colloidal, dispersed, and suspended formulas, emulsified micro-emulsions, nano-emulsions, and so forth, we design excellent formula pharmaceuticals with sensory qualities of penetration, gradually release, touch, smell, and tactile feeling which can be evaluated.

#### c. Processing Research

Combining different mechanical forces such as mixing, cutting, crushing, grinding and homogenization to demonstrate the consistency and stability of mass product quality, senior researchers combined three items of professional expertise and experience to continuously develop novel products which may be mass produced and possess stable quality.

### B. Disadvantage Factors and Their Countermeasures

#### (A) Movement of Professional Beauticians

Professional beauticians are the mainstay of beauty salons. Training and education generally takes about two years to complete, but due to the annual turnover ratio for the industry as a whole being too high, this has led to an uneven quality of professionalism in beauticians. Also, the intensity of market competition can easily cause substantial movement of professional beauticians.

#### Response Measures:

According to internal statistics, of the professional beautician personnel participating in more than two instances of corporate training every year, the retention rate can reach more than 90%, and by changing the original centralized education system of headquarters training mechanism, and adopting a nationwide training scheme divided at each province and point, to reduce costs in terms of time, traffic, and so on, we have thereby improved the personnel retention rate. And this can be updated with the latest product information and service education and training.

Chlitina has complete education and training mechanisms, with a three-stage elite training system for beauticians, which consists of Basic Training, Beauty Ambassador, and Advanced Adviser phases. Enhanced learning is carried out according to the market distribution needs, and to the learning stage, and there are 25 training bases in mainland China and Taiwan, which hold intensive learning education courses, providing a complete and constant source of professional human resources.

#### (B) Price Fluctuations Affect Operating Costs

As Chlitina products boast natural plant extracts and essences, the main raw materials include rose, herb pollen, seabed algae, vitamins, amino acids and various rare plants. The diverse characteristics of their places of origin make obtaining raw materials vulnerable to the impacts of climate, which affects the cost of production. Also, packaging materials include paper packaging, plastic packaging, glass packaging and other packaging materials whose costs are also affected by fluctuations in crude oil prices, which affect the purchase price.

#### Response Measures:

Although medicinal plants and fluctuations in crude oil prices push up goods and hardware costs slightly, by expanding the overall system scale, a relative reduction in the money spent on operating costs can be achieved. Chlitina's main cost source is the outlet operating costs for providing sophisticated services. Relative to the Company's product pricing, the cost of raw materials is comparatively small, and through personnel organization training and education the value of services can be increased. Also, through the use of digital technology, distribution of remote terminal education and information can be increased, and thus also correspondingly reduce the cost of training.

## **2. Application of Our Company's main products and production process**

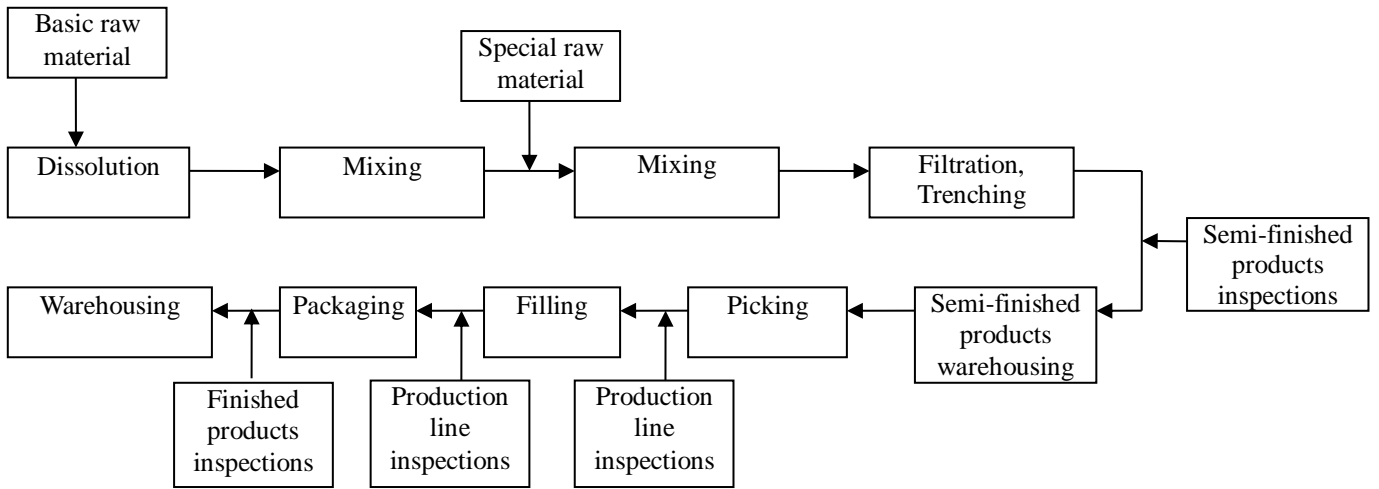
### (1) Application of Our Company's main products

The company's main products are cosmetic skin care products. Their purpose is for females to apply to the face for skin care, whitening, tenderizing, wrinkle elimination and anti-aging, and the sales channel is through the brand Franchise approach, with the company providing training to industry operators joining the franchise, training professional skin care and cosmetics personnel for them. Through its unified manufacturing, the company's provide the products to franchisees.

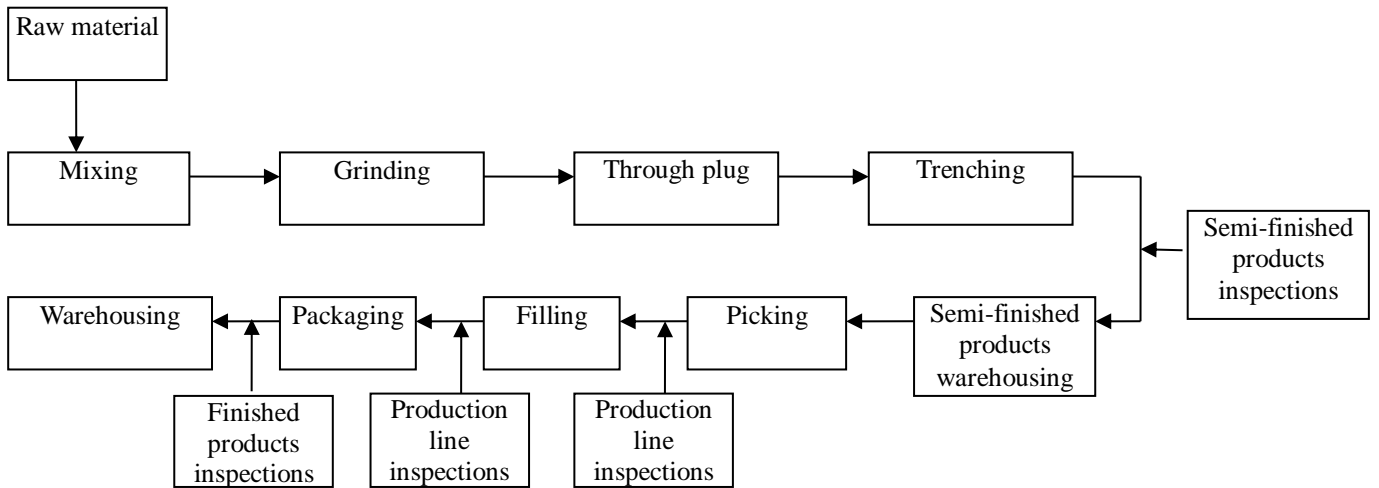
### (2) The manufacturing process of main products

Based on production equipment, facilities and production capabilities, the company applied for and received three single-unit categories of production qualification for its products: general liquid unit (cleanser category, skin care liquid category, and gel category), creams and lotions unit (skin care cleaning category, hair use category), powder unit (lump powder, loose powder). The process is as follows:

General Liquid Unit Production Work Order Process:

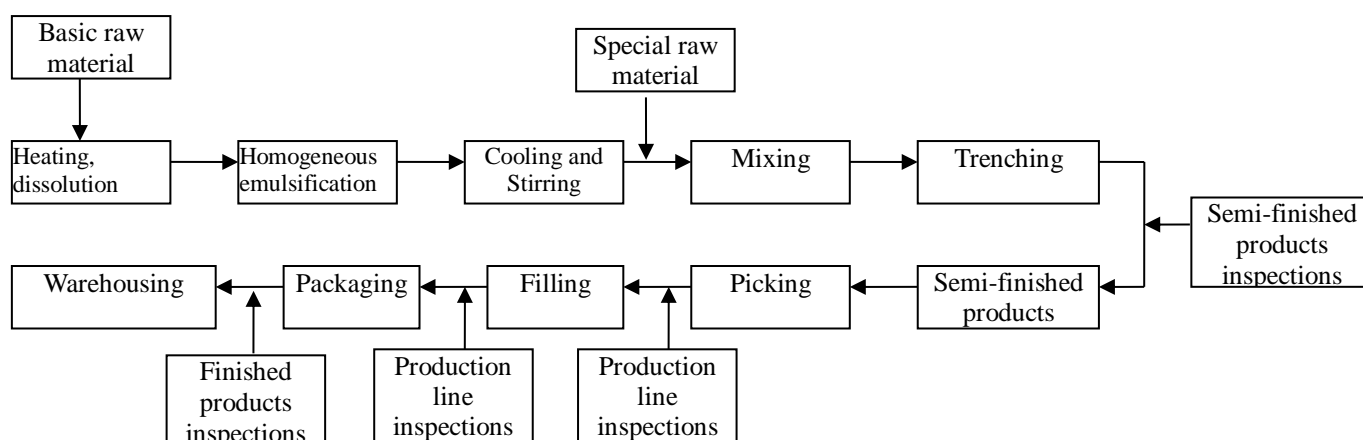


Creams and lotions Unit Production Work Order Process:





### Powder Unit Production Work Order Process:



### 3. Supply for main materials

The main raw materials for the cosmetic skin care products produced by the Company include chemical raw materials, semi-finished products, packaging materials, and so on, for which there are many suppliers. The main raw material supply situation over the most recent three years has been very good, and we have not experienced any shortage in the supply of raw materials. The company continues to supervise its suppliers and seeks product quality which meets company requirements, while at the same time also being able to provide manufacturers who offer more favorable costs the opportunity to become cooperative partners. For this reason, there has also been some adjustment in terms of suppliers due to above-mentioned procurement strategy. In order to maintain flexibility in the purchase of raw materials while at the same time ensuring the source of raw materials, the company signs one-year service contracts with a small number of suppliers, to facilitate making appropriate adjustments. With respect to the various main raw materials and items, we always maintain supply from a number of suppliers, and the Company also maintains good long-term cooperative relations with each of its suppliers, to ensure the stability of the sources of supply.

### 4. Explanation for significant changes in gross margin for major products or departments in the last two year

Significant changes in gross margin for major products or departments in the last two year

Unit: NTD 1,000

Item	Year	2014	2015
Operating revenue		3,071,369	4,394,264
Gross margin		2,479,834	3,338,536
Gross margin		80.74%	75.97%
Change ratio of gross margin		2.97%	(5.90)

Note: Because the OEM gross margin was lower, gross margin decreased in 2015.

## 5. Key suppliers and Customers

(1) Names of suppliers accounting for more than 10% of the total purchase in any of the previous two years and its purchase amount and ratio, and explanation for the increase or decrease change reasons

Unit: NTD 1,000; %

Year	2014				2015				As of Q1 of 2016			
Item	Client Name	Amount (NTD 1,000)	% of total net purchase	Relation	Client Name	Amount (NTD 1,000)	% of total net purchase	Relation	Client Name	Amount (NTD 1,000)	% of total net purchase	Relation
1	Sagittarius Life Science Corp.	74,762	16.53	related party	A Company(Note)	251,968	24.04	None	A Company (Note)	76,892	27.35	None
2	Charming Biotech Corporation	50,343	11.13	related party					Charming Biotech Corporation	29,693	10.56	related party
	Other	327,079	72.34	None	Other	796,228	75.96	None	Other	174,584	62.09	None
	Total	452,184	100.00	-	Total	1,048,196	100	-	Total	281,169	100	-

Note: Our Company has signed the confidential agreement with the said company.

### Reasons for change:

Most our company's purchase is chemicals, semi-finished products, packaging material, and health drinks. Our company purchases chemicals, semi-finished products, and packaging material from multiple suppliers to ensure no shortage or interruption of supplies. Moreover, the OEM income increase in 2015 led to more purchase from the company A. Overall, the changes in suppliers is reasonable.

(2) The sales amount and percentage for the clients that purchase more than 10% of total sales in any year of the last two years and. The reason of change was explained.

Unit: NTD 1,000;%

Year	2014				2015				Q1 of 2016			
Item	Client Name	Amount (NTD 1,000)	% of total net sale	Relation	Client Name	Amount (NTD 1,000)	% of total net sale	Relation	Client Name	Amount (NTD 1,000)	% of total net sale	Relation
1					Kelti (China) Daily Product Co., Ltd.	1,267,561	28.85	related party	Kelti (China) Daily Product Co., Ltd.	349,544	31.70	related party
2	Other	3,071,369	100.00	None	Other	3,126,703	71.15	None	Other	753,262	68.30	None
	Total	3,071,369	100.00	-	Total	4,394,264	100.00	-	Total	1,102,806	100	-

Reasons for change:

Our products are mainly for the domestic market of China. Our market positioning is franchise brand. Our company establishes brand platform, maintains sales network, and maintain brand franchise relation with our franchisee. In recent years, the success in franchise business development steadily increased sales. Our sales clients are numerous and widely distributed. There is no customer concentration risk because no client has net sales weight more than 10% in the last two years except Kelti (China). Overall, there has been no significant anomaly in the changes of sales client in the last two year.

#### 6. Production Volume and value in the past 2 years and change analysis

Unit : kpcs ; NTD 1,000

Year	2014			2015		
	Production capacity	Production volume	Production amount	Production capacity	Production volume	Production amount
Facial care products	16,050	3,540	205,571	16,050	6,980	331,668
Body products		86	15,095		56	7,952
Aromatic products		24	3,393		29	2,919
Other		38	3,440		61	7,978
Total	16,050	3,688	227,499	16,050	7,126	350,517

#### 7. Sales Volume and value in the past 2 years and change analysis

Unit: kpcs; NTD 1,000

Year	2014				2015			
	Domestic sales		Export sales		Domestic sales		Export sales	
	volume	Value	volume	Value	volume	Value	volume	Value
Face care products	79	87,986	2385	2,356,158	143	129,349	2797	2,603,273

Body products	0	0	68	116,868	0	0	68	85,045
Aromatic products	11	414	18	12,624	7	4,892	20	7,378
Other	0	17,821	0	479,498	43	9,043	846	1,555,284
Total	90	106,221	2471	2,965,148	193	143,284	3731	4,250,980

### iii. Personnel Information in the latest 2 years

Item		2014	2015	End of Mar 2016
Number of employees	Manager	56	66	69
	General employees	574	519	528
	Production line employees	61	59	49
	Total	691	644	646
Average age		33.94	34.27	34.61
Average year of service		3.55	3.91	4.12
Education (%)	Doctoral	0.14%	0.00%	0.00%
	Master	2.89%	3.11%	3.56%
	University / College & University	68.02%	70.03%	70.90%
	High School and below	28.94%	26.86%	25.54%
	Total	100.00%	100.00%	100.00%

### iv. Environmental Conservation Expense

The manufacture of cosmetic skin care products, in the overall production chain, is itself a 'low-pollution, high-skill', environmentally friendly-type of business. Production processes focus on formula research, precision deployment of biotech raw materials, and packaging. The company's application of advanced processes such as vacuum emulsifying and mixing, continuous cooling, high speed shearing and mixing, micro-jet collision high-pressure homogenization, and so forth, is applied to clean natural ingredients, to make each one of our praise-winning quality care cosmetic products. Shanghai's Songjiang District Environmental Protection Bureau has issued a certificate of qualification as a proof of environmental compliance with the law, confirming the Company's determination to actively implement a corporate concept of environmental protection.

1. According to legal provisions, those who should apply for a pollution facility installation permit, or a pollution discharge permit, or pollution control costs which should be paid, or those who should establish a dedicated environmental personnel unit, the relevant application, payment or establishment circumstances are explained:

The production plant of the Company's subsidiary company, Weishuo Company, is located in mainland China's Shanghai, implements ISO 9001 quality and 14001 environmental management systems, complies with the standards of good manufacturing practices (GMP), and has obtained hazard analysis and critical control point (HACCP) compliance verification certification. At the time the plant was established, and an environmental assessment report was made. Also, as plant was leased from a stakeholder, the wastewater produced by the production process, as the wastewater discharged from the pipe did not meet drainage standards, so at present uses Chitlina's China company's installment of water treatment equipment for physicochemical and biochemical treatment after which the wastewater is discharged into sewage pipes. And the stakeholder has also obtained a drainage permit. Furthermore, with respect to waste disposal, we have also signed contracts with qualified waste disposal firms, who carry out regular treatment.

2. Possible benefits generated for listed companies through major investment in environmental pollution prevention equipment and their usage: none
3. Pollution dispute incidents in the last two years and up to the date when the explanatory statement was published, and, during the Company's improvement of environmental pollution, treatment processes which should be explained: none.
4. Due to environmental pollution caused by the Company, losses (including compensation) suffered by the Company in the last two years and up to the date when the explanatory statement was published, total amount of penalty, and exposition of future response measures (including improvements) and possible expenditures (including possible loss due to the failure to take countermeasures, penalties and estimated amount of compensation, if unable to be reasonably estimated, reasonable explanation for this should be provided): none.
5. Explanation of the current state of pollution and the effect of its improvement on the company's profits, the competitive position and capital expenditure, and of projected major environmental capital expenditures over the next two years: none.

## **v. Employee Relations**

1. Our company is committed to offering our employees an environment to develop their capabilities. Our employee welfare measures, advanced studies, training, retirement system and other measures to protect employees' rights and interests as follows.

### **(1) Welfare measures and their implementation status**

The principal place of operations within the Company group is mainland China. The Company's personnel welfare measures, apart from being in compliance with the Law of the People's Republic of China on Employment Contracts, Shanghai Municipality Labor Contract Regulations and being in line with local government's labor insurance and health insurance, in accordance with the relevant Chinese

laws, regulations and implemented policies, we also offer employees a variety of benefits, bonuses, holidays, cultural and recreational activities, training plans, social insurance and other related benefits.

(2) Continuing education

Expertise is the Company's most important core competency. And continuing education and training can stimulate the personal potential of employees to improve their knowledge, thus making effective use of manpower, improving the Company's overall business performance, and achieving its operational goals. To raise the quality of staff and their skills, pre-service training is carried out as soon as new employees are hired, and general and specialized training is also carried out at irregular intervals depending on their requirements. Through e-learning methods, all levels of management personnel undertake long-term management training.

(3) Retirement System and Implementation Status

The Company's main base of operations is located in mainland China. Employees participate in pension insurance according to the provisions of local labor laws and regulations. The company sets aside employee insurance on a monthly basis in accordance with local regulations, to safeguard employee benefits.

(4) Labor Agreements & Employees' Right Protection

The Company's formulation of work rules is in conformity with legal requirements explicitly regulating working conditions, and safeguarding the interests of employees. We have also set up a complaint channels so the rights and interests of employees can be protected fairly and reasonably through a variety of channels. So far, no major labor disputes have ever occurred at the Company.

2. Description of losses suffered by the Company in the most recent year and up to the day of printing the Annual Report, due to labor disputes, and exposition of current and possible future response measures and estimated expenditures, if unable to be reasonably estimated, reasonable explanation for this should be provided

The Company has always enjoyed harmonious labor relations, and has not suffered any significant losses due to labor disputes. We do not expect any significant losses due to labor disputes arising in coming year.

**vi. Code of Conduct**

**(1) Chlitina Intelligence Limited**

Type of Contract	Principal	Year of Contract	Validity period	Purpose
Trademark usage	Kelti (China) Daily Product Co., Ltd.	Jan. 1, 2014 ~ Dec. 31, 2015	Authorize the use of the trademark	None

		(3DR, peekaboo)	
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**(2) Chlitina (Shanghai) Trade Limited**

Type of Contract	Principal	Year of Contract	Validity period	Purpose
Distribution of Contract	Sagittarius Life Science Corp.	Jan. 1, 2014-Dec. 31, 2016	Distribution of Contract	None
Advertising contracts	Hsin Yi Chuan Advertising Ltd.	2016.2.3-vaild for one year	Advertising on Shanghai Hongqiao International Airport	None

**(3) Weishuo Company**

Type of Contract	Principal	Year of Contract	Validity period	Purpose
Lease Contracts	Kelti (China) Daily Product Co., Ltd.	Jan. 1, 2012 to Dec. 31, 2017	House Lease Contracts	Nil

## VI. Financial Status

### i. Simplified Financial Data for the Last 5 Years

#### 1) Simplified balance sheet

Unit: NTD 1,000

Year		Last 5 years' financial data (note 1)					Mar. 31, 2016 (note 2)
		2011 (note 2)	2012 (note 2)	2013 (note 2)	2014 (note 2)	2015 (note 2)	
Current assets		1,014,703	1,408,247	3,159,779	2,994,416	4,735,959	4,753,366
Real estate, factory building, and equipment		443,547	487,171	1,109,323	1,148,643	1,066,537	1,046,686
Intangible assets		-	-	-	107,244	39,385	53,369
Other assets		35,428	56,437	68,502	149,053	132,972	255,332
Total assets		1,493,678	1,951,855	4,337,604	4,399,356	5,974,853	6,108,753
Current liabilities	Before appropriation	864,335	775,680	976,638	1,061,804	1,167,968	1,009,067
	After appropriation	864,335	1,056,240	1,468,734	1,618,250	note 3	-
Non-current liabilities		182,147	183,972	395,015	7,969	860,156	865,665
Total liabilities	Before appropriation	1,046,482	959,652	1,371,653	1,069,773	2,028,124	1,874,732
	After appropriation	1,046,482	1,240,212	1,863,749	1,626,219	note 3	-
Equity attributable to owners of the parent company		447,196	992,203	2,965,951	3,329,583	3,946,729	4,234,021
Capital		20,000	668,000	757,070	794,924	794,924	794,924
Capital surplus		427,196	271	1,411,501	1,419,463	1,456,484	1,456,484
Retained earnings	Before appropriation		335,199	710,975	987,689	1,598,085	1,921,974
	After appropriation		54,639	218,879	431,243	note 3	-
Other Equity			(11,267)	86,405	127,507	97,236	60,639
Treasury stock							
Non-controlling equity							
Total equity	Before appropriation	447,196	992,203	2,965,951	3,329,583	3,946,729	4,234,021
	After appropriation	447,196	711,643	2,473,855	2,773,137	note 3	-

Note 1: Our Company was established on July 3, 2012. Only the 2011 to 2012 consolidated financial report.

Note 2: 2011 to 2015 Simplified Balance Sheet is a CPA certified financial statement. The 2016 first quarter financial report is reviewed by CPA.

Note 3: The 2015 profit distribution is scheduled to be discussed in the regular shareholders meeting.



2) Simplified Statements of Comprehensive Income

Unit: NTD 1,000

Year Item	Last 5 years' financial data (note 1)					
	2011 (note 2)	2012 (note 2)	2013 (note 2)	2014 (note 2)	2015 (note 2)	Q1 of 2016 (note 2)
Operating revenue	1,953,625	2,408,559	2,701,472	3,071,369	4,394,264	1,102,806
Gross margin	1,145,747	1,992,161	2,118,238	2,479,834	3,338,536	833,110
Operating profit or loss	387,644	790,692	811,426	877,892	1,371,183	428,646
Non-operating revenue & expense	6,261	14,033	55,531	119,389	70,466	666
Pre-tax net profit	393,905	804,725	866,957	997,281	1,441,649	429,312
Net profit for the period of continuing operations	275,415	590,385	693,228	755,837	1,167,087	323,889
Loss of discontinued operations	-	-	-	-	-	-
Net profit (loss) for the period	275,415	590,385	693,228	755,837	1,167,087	323,889
Other comprehensive profit or loss current period (Net after tax)	29,164	(17,909)	60,780	76,529	(30,516)	(36,597)
Total comprehensive profit or loss current period	304,579	572,476	754,008	832,366	1,136,571	287,292
Net profit attributable to owners of the parent	275,415	590,385	693,228	755,837	1,167,087	323,889
Net profit attributable to Non-controlling equity	-	-	-	-	-	-
Comprehensive profit or loss attributable to owners of the parent	304,579	572,476	754,008	832,366	1,136,571	287,292
Comprehensive profit or loss attributable to Non-controlling equity	-	-	-	-	-	-
EPS (\$)	4.12	8.84	9.70	9.51	14.68	4.07

Note 1: Our Company was established on July 3, 2012. Only the 2011 to 2012 consolidated financial report.

Note 2: 2011 to 2015 Simplified Balance Sheet is a CPA certified financial statement. The 2016 first quarter financial statement is reviewed by CPA.

3) Names of the CPAs and their audit opinions over the last five years:

Year	The Name of the CPA	The Name of the Office of CPA	Audit Opinion
2011	Huang, Po-Shu, Yu, An-Tian	KPMG	Modified unqualified opinion (note )
2012	Huang, Po-Shu, Yu, An-Tian	KPMG	Unqualified opinion
2013	Huang, Po-Shu, Yu, An-Tian	KPMG	Unqualified opinion
2014	Huang, Po-Shu, Yu, An-Tian	KPMG	Unqualified opinion
2015	Huang, Po-Shu, Yu, An-Tian	KPMG	Unqualified opinion

Note: An explanation was added to illustrate that consolidated financial statement is prepared according to International Financial Reporting Standards, which is slightly different from Generally Accepted Accounting Principles in Taiwan.

## ii. Analysis for the last 5 years' Financial Status

Year (note 1) Categories (Note 3)		Analysis for the last 5 years' Financial Status					As of Mar. 31, 2016 (note 2)
		2011	2012	2013	2014	2015	
Financial structure (%)	Ratio of liabilities to assets	70.06	49.17	31.62	24.32	33.94	30.69
	Ratio of long-term capital to real estate, factory building, and equipment	141.89	241.43	302.97	290.56	450.70	487.22
Solvency %	Current ratio	117.4	181.55	323.54	282.01	405.48	471.07
	Quick ratio	83.92	150.19	292.38	255.18	360.72	414.38
	Times interest earned	52.98	67.03	67.70	63.23	1,015.53	101.33
Operation capacity	Receivables turnover ratio (times)	94.33	234.00	336.82	182.78	12.67	9.25
	Average collection days	4	2	1	2	28.80	39.47
	Inventory turnover ratio (times)	2.80	1.56	2.51	2.44	3.01	2.29
	Payables turnover ratio (times)	3.30	2.39	15.73	15.27	10.01	7.98
	Average sales days	130	234	145	150	121	160
	Real estate, factory building, and equipment turnover ratio (times)	7.80	5.18	3.38	2.72	3.96	4.17
	Total assets turnover ratio (times)	1.69	1.40	0.86	0.70	0.84	0.73
Profitability	Return on assets (%)	24.35	34.79	22.37	17.58	22.52	21.66
	Return on equity (%)	90.09	82.03	35.03	24.01	32.07	31.67
	Ratio of pre-tax net profit to paid-in capital (%) (note 7)	1969.53	120.47	114.51	125.46	181.35	216.03
	Net profit ratio (%)	14.10	24.51	25.66	24.61	26.55	29.37
	EPS (NTD)	4.12	8.84	10.25	9.51	14.68	4.07
Cash flows	Cash flow ratio (%)	57.48	81.97	81.39	77.60	47.07	53.78
	Cash flow adequacy ratio (%)	(note 3)	(note 3)	-	-	-	-
	Cash re-investment ratio (%)	74.68	49.16	14.70	9.30	-0.13	9.97
Leverage	Degree of operational leverage	1.32	1.22	1.26	1.29	1.18	1.15
	Degree of financial leverage	1.02	1.02	1.02	1.02	1.00	1.01

Please explain the causes of changes in various financial ratios in the last two years. (No need to analyze if the changes are less than 20 %.)

1. Financial structure

Liabilities ratio increase: the increase of liabilities is mainly due to the issuance of unsecured convertible bond in 2015.

Long-term capital to real estate, factory building, and equipment ratio increase: non-current liability increased is due to the issuance of unsecured convertible bond in 2015.

2. Solvency

Current ratio and quick ratio increases: cash and cash equivalents increased due to the issuance of unsecured convertible bond in 2015, resulting in current assets increase.

Times interest earned increase: The main cause is the 2015 operating revenue increase, leading to increase in the pre-tax gains and losses. Another cause is the decrease of loan interest expense. There was no loan in 2015.

3. Operation capacity

Receivables turnover ratio decreases and average collection days increase: The main cause is the 2015 relative party account receivable balance increase. Moreover, the payment for related party is calculated monthly and received in 60 days.

Inventory turnover ratio increase: The main cause is the 2015 operating cost increase.

Payables turnover ratio decrease: In the end of 2015, our company increased inventory to match the sales increase. Thus, the ending payables balance increased, resulting in the decrease of account payables turnover ratio.

Real estate, factory building, and equipment turnover ratio increase and total asset turnover ratio increase: main cause is the considerable net sale increase in 2015.

4. Profitability

Return on assets increase and return on equity increase: The main cause is the significant increase of after-tax profits or losses in 2015.

Pre-tax net profit to paid-in capital ratio increase: The main cause is the significant increase of pre-tax net profit in 2015.

Earnings per share increase: The main cause is that an owner of the parent company had a significant increase of profits or losses in 2015. The numbers of the issued stocks remained the same, so earning per share increased.

5. Cash flow

Cash flow ratio decrease: The increases in account receivable and purchase activities in 2015 leads to operating net cash inflow decrease.

Cash reinvestment ratio decrease: The 2015 cash dividend distribution resulted in operating net cash inflow and cash dividend balance decrease.

6. Leverage

The change did not reach 20%.

Note 1: Our Company was established in July 2012. Only the 2011 to 2012 consolidated financial report.

Note 2: The 2011 to 2012 financial analysis ratio information is based on the CPA reviewed and certified consolidated financial statement. The 2016 first quarter financial analysis ratio information is based on the CPA reviewed and certified consolidated quarterly financial report.

Note 3: Operating net cash flow and capital expenses information of the last 5 years is not available, therefore, not calculated.

Note 4: Financial ratio equations are listed in the following table:

## 1. Financial structure

- (1) Ratio of liabilities to assets = Total liabilities / Total Assets
- (2) Ratio of long-term capital to real estate, factory building, and equipment = (Total equity + Non-current Liabilities) / Net Real estate, factory building, and equipment

## 2. Solvency

- (1) Current Ratio = Current asset / Current Liabilities
- (2) Quick Ratio = (Current asset – Inventory - Prepaid expense) / Current Liabilities
- (3) Times interest earned = Net profit before income tax and interest expense / Interest expenses of the period

## 3. Operation capacity

- (1) Account receivables (including accounts receivables /notes receivable from sales) = net sales / average receivables for each period (including accounts receivables /notes receivable from sales)
- (2) Average collection days = 365 / Receivables turnover ratio
- (3) Inventory turnover ratio = sales cost / Average inventory
- (4) Payables (including accounts payable and notes payable from business) turnover ratio = Sales cost / Balance of average payables (including accounts payable and notes payable from sales)
- (5) Average sales days = 365 / Inventory turnover ratio
- (6) Real estate, factory building, and equipment turnover ratio = Net sales / Net average Real estate, factory building, and equipment
- (7) Total assets turnover ratio = Net sales / average total assets

## 4. Profitability

- (1) Return on assets = [Profit or loss after tax + Interest expense × (1 - Tax rate)] / average total assets
- (2) Return on equity = Profit or loss after tax / Average total equity
- (3) Net profit ratio = Profit or loss after tax / Net sales
- (4) EPS = (Equity attributable to owners of the parent company - Dividends of preferred stock) / Weighted average shares issued

## 5. Cash flows

- (1) Cash flow ratio = Net cash flows of operating activities / Current Liabilities
- (2) Net cash flow adequacy ratio = Net cash flows of operating activities in latest 5 years / (Capital expense + Increase in inventories + Cash Dividends) in last 5 years
- (3) Cash re-investment ratio = (Net cash flows of operating activities - Cash Dividends) / (Gross of Real estate, factory building, and equipment + Long-term investments + other non-current asset + Working capital) (note 4)

## 6. Leverage:

- (1) Degree of operational leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profit
- (2) Degree of financial leverage = Operating profit / (Operating profit - Interest expense)

### iii. The last year's Financial Reports, Audit Committee's Audit Report

## Chlitina Holding Limited

### Audit Committee's Audit Report

The Committee hereby approves the Company's 2015 business report, financial reports and earnings distribution statement prepared and submitted by the board of directors, in which, as consigned by the board of directors, the CPAs of Yu, An-Tien and Huang, Po-Shu at KPMG in Taiwan completed their audit of the financial reports and issued an audit report. The audit committee already reviewed the preceding reports and documents prepared and submitted by the board of directors, and considered them not inconsistent. Hence, the committee issues the report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of Taiwan's Company Act. Please take note of it.

To: 2016 Regular Shareholders' Meeting of Chlitina Holding Limited

Chlitina Holding Limited  
Audit Committee



Convener : Yuqin Cai

蔡玉琴

Member : Pengwen Gao

高蓬文

Member : Hongding Yu

于弘鼎

Date: Mar. 4, 2016

**iv. Financial reports of the last year**

**CHLITINA HOLDING LIMITED  
AND SUBSIDIARIES**

**Consolidated Interim Financial Statements**

**March 31, 2016 and 2015**

**(With Independent Auditors' Review Report Thereon)**

**Address: Cricket Square, Hutchins Drive, PO Box 2681,  
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安侯建業聯合會計師事務所

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## Independent Auditors' Review Report

The Board of Directors  
CHLITINA HOLDING LIMITED:

We have reviewed the accompanying consolidated balance sheets of CHLITINA HOLDING LIMITED and subsidiaries (the Group) as of March 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three month periods ended March 31, 2016 and 2015, and for the the three months ended March 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No.36, "Engagements to Review Financial Statements". A review consists principally of inquiries of the Company's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modification that should be made to the accompanying consolidated financial statements referred to in the first paragraph in order for them to be in conformity with International Accounting Standard 34 "Interim Financial Reporting" and "Order No. Financial-Supervisory-Securities-Auditing-10200546801".

May 12, 2016

KPMG

### Note to Readers

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

The auditors' review report and the accompanying condensed consolidated interim financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language accountants' report and financial statements, the Chinese version shall prevail.

KPMG, a Taiwan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Reviewed only, not audited in accordance with the generally accepted auditing standards on March 31, 2016 and 2015

CHILYINA HOLDING LIMITED and subsidiaries

Consolidated Balance Sheets

March 31, 2016, December 31, and March 31, 2015

(All amounts expressed in thousands dollars)

Assets	March 31, 2016		December 31, 2015		March 31, 2015		December 31, 2015		March 31, 2015			
	CNY	TWD	%	CNY	TWD	%	CNY	TWD	%	CNY	TWD	%
<b>Current assets:</b>												
Cash and cash equivalents (note 6(a))	\$ 776,447	3,860,494	63	679,967	3,396,435	58	543,664	2,742,241	60	16,551	82,292	3
Financial assets at fair value through profit or loss—current (note 6(b))	-	-	-	2	9	-	18,024	90,913	2	3,937	19,575	-
Accounts receivable, net (note 6(c))	249	1,238	-	220	1,099	-	133	671	-	24,096	119,805	2
Accounts receivable—related parties, net (notes 6(c) and 7)	57,663	286,701	5	133,131	664,989	11	15,980	80,603	2	17,288	85,956	2
Other receivables (note 6(c))	1,839	9,143	-	4,399	21,973	-	2,536	12,792	-	29,279	145,575	2
Other receivables—related parties (notes 6(c) and 7)	860	4,276	-	946	4,725	-	996	5,024	-	53,454	265,773	4
Inventories (note 6(d))	94,436	469,516	8	87,443	436,778	7	53,321	268,951	6	56,231	279,580	5
Prepayments (note 7)	20,600	102,423	2	17,231	86,069	1	14,565	73,466	2	202,950	1,009,067	16
Other current financial assets (note 6(e))	1,900	7,458	-	22,736	113,567	2	1,500	7,566	-	1,285	6,390	-
Other current assets	2,433	12,097	-	2,065	10,315	-	2,669	13,462	-	171,561	833,000	14
<b>Total current assets</b>	<b>956,027</b>	<b>4,753,266</b>	<b>78</b>	<b>948,140</b>	<b>4,735,939</b>	<b>72</b>	<b>651,388</b>	<b>3,295,689</b>	<b>72</b>	<b>1,262</b>	<b>6,275</b>	<b>-</b>
<b>Non-current assets:</b>												
Investment accounted for using equity method (note 6(f))	15,658	77,752	1	15,854	79,191	1	16,199	81,708	2	174,188	865,665	14
Property, plant and equipment (note 6(g))	210,516	1,046,686	17	213,521	1,066,537	18	222,325	1,121,407	24	377,038	1,874,732	30
Intangible assets (notes 6(h) and 7)	10,734	53,369	1	7,885	39,385	1	11,812	59,380	1	161,772	794,924	13
Deferred income tax assets	8,084	40,194	1	10,767	53,781	1	12,333	62,208	1	294,208	1,456,484	24
Other non-current assets (note 6(g))	27,632	137,386	2	-	-	-	456	2,300	-	161,772	794,924	13
<b>Total non-current assets</b>	<b>272,604</b>	<b>1,355,387</b>	<b>22</b>	<b>248,027</b>	<b>1,238,894</b>	<b>21</b>	<b>263,125</b>	<b>1,377,203</b>	<b>28</b>	<b>294,208</b>	<b>1,456,484</b>	<b>24</b>
<b>Total assets</b>	<b>\$ 1,228,631</b>	<b>6,108,653</b>	<b>100</b>	<b>1,196,167</b>	<b>5,974,833</b>	<b>100</b>	<b>916,513</b>	<b>4,672,892</b>	<b>100</b>	<b>1,556,290</b>	<b>6,731,763</b>	<b>100</b>
<b>Liabilities and Stockholders' Equity</b>												
<b>Current liabilities:</b>												
Accounts payable	1,285	6,390	-	613	3,060	-	3,060	-	-	1,285	6,390	-
Accounts payable—related parties (note 7)	171,561	833,000	14	169,914	848,721	14	-	-	-	171,561	833,000	14
Other payables	1,262	6,275	-	1,677	8,375	-	1,588	8,009	-	1,262	6,275	-
Other payables—related parties (note 7)	174,188	865,665	14	172,204	860,156	14	1,588	8,009	-	174,188	865,665	14
Current income tax liabilities	377,038	1,874,732	30	406,032	2,028,124	34	226,941	1,144,690	24	377,038	1,874,732	30
Advance receipts	161,772	794,924	13	161,772	794,924	13	161,772	794,924	17	161,772	794,924	17
Other current liabilities (note 6(f))	294,208	1,456,484	24	284,208	1,456,484	24	284,208	1,456,484	24	294,208	1,456,484	24
Guarantee deposits	36,908	178,405	3	36,908	178,405	3	36,908	178,405	3	36,908	178,405	3
Total current liabilities	338,828	1,743,569	29	274,640	1,419,680	24	288,728	1,469,134	23	338,828	1,743,569	29
Non-current liabilities:	375,730	1,921,974	32	311,548	1,538,085	27	229,945	1,169,955	25	375,730	1,921,974	32
Financial liability at fair value through profit or loss (note 6(f))	19,863	66,639	1	22,607	97,236	2	10,985	103,860	2	19,863	66,639	1
Bonds payable (note 6(f))	831,573	4,234,021	70	790,135	3,946,729	66	689,572	3,478,202	76	831,573	4,234,021	70
Net defined benefit liabilities	1,228,631	6,108,653	100	1,196,167	5,974,833	100	916,513	4,672,892	100	1,228,631	6,108,653	100
Total non-current liabilities	1,230,436	6,170,654	100	1,218,774	6,013,964	100	927,500	4,641,752	100	1,230,436	6,170,654	100
<b>Total liabilities</b>	<b>1,609,264</b>	<b>7,914,223</b>	<b>132</b>	<b>1,493,414</b>	<b>7,433,644</b>	<b>132</b>	<b>1,216,023</b>	<b>6,113,646</b>	<b>132</b>	<b>1,609,264</b>	<b>7,914,223</b>	<b>132</b>
Equity attributable to shareholders of the parent (notes 6(i) and 6(m)):												
Common stock	272,604	1,355,387	22	248,027	1,238,894	21	263,125	1,377,203	28	272,604	1,355,387	22
Capital surplus	36,908	178,405	3	36,908	178,405	3	36,908	178,405	3	36,908	178,405	3
Retained earnings:	338,828	1,743,569	29	274,640	1,419,680	24	288,728	1,469,134	23	338,828	1,743,569	29
Legal reserve	375,730	1,921,974	32	311,548	1,538,085	27	229,945	1,169,955	25	375,730	1,921,974	32
Unappropriated retained earnings	19,863	66,639	1	22,607	97,236	2	10,985	103,860	2	19,863	66,639	1
Other equities:	831,573	4,234,021	70	790,135	3,946,729	66	689,572	3,478,202	76	831,573	4,234,021	70
Financial statements translation differences for foreign operations	1,228,631	6,108,653	100	1,196,167	5,974,833	100	916,513	4,672,892	100	1,228,631	6,108,653	100
Total equity	569,367	2,794,430	46	702,753	3,531,189	59	699,490	3,309,246	67	569,367	2,794,430	46
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,228,631</b>	<b>6,108,653</b>	<b>100</b>	<b>1,196,167</b>	<b>5,974,833</b>	<b>100</b>	<b>916,513</b>	<b>4,672,892</b>	<b>100</b>	<b>\$ 1,228,631</b>	<b>6,108,653</b>	<b>100</b>

See accompanying notes to financial statements.

**Reviewed only, not audited in accordance with the generally accepted auditing standards**  
**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**For the three-month periods ended March 31, 2016 and 2015**  
**(All amounts expressed in thousands dollars)**

	Three-month periods ended March 31					
	2016			2015		
	CNY	TWD	%	CNY	TWD	%
Operating revenue (notes 6(o) and 7)	\$ 218,533	1,102,806	100	163,217	824,183	100
Operating costs (notes 6(d), (g), (k), 7 and 12)	<u>53,443</u>	<u>269,696</u>	<u>24</u>	<u>41,268</u>	<u>208,389</u>	<u>25</u>
Gross profit	<u>165,090</u>	<u>833,110</u>	<u>76</u>	<u>121,949</u>	<u>615,794</u>	<u>75</u>
Operating expenses (notes 6(g), (h), (k), (m), (p), 7 and 12):						
Selling expenses	54,396	274,504	25	57,722	291,473	36
Administrative expenses	<u>25,753</u>	<u>129,960</u>	<u>12</u>	<u>23,280</u>	<u>117,555</u>	<u>14</u>
Total operating expenses	<u>80,149</u>	<u>404,464</u>	<u>37</u>	<u>81,002</u>	<u>409,028</u>	<u>50</u>
Operating profit	<u>84,941</u>	<u>428,646</u>	<u>39</u>	<u>40,947</u>	<u>206,766</u>	<u>25</u>
Non-operating income and expenses (notes 6(f), 6(i) and (q)):						
Other income	1,507	7,605	-	3,153	15,921	1
Other gains and losses	(311)	(1,570)	-	(441)	(2,227)	-
Finance costs	(848)	(4,279)	-	-	-	-
Share of profit (loss) of associates accounted for under equity method	<u>(216)</u>	<u>(1,090)</u>	<u>-</u>	<u>(509)</u>	<u>(2,570)</u>	<u>-</u>
Total non-operating income and expenses	<u>132</u>	<u>666</u>	<u>-</u>	<u>2,203</u>	<u>11,124</u>	<u>1</u>
Net income before tax	85,073	429,312	39	43,150	217,890	26
Less: income tax expenses (note 6(f))	<u>20,891</u>	<u>105,423</u>	<u>10</u>	<u>8,441</u>	<u>42,624</u>	<u>5</u>
Net income	<u>64,182</u>	<u>323,889</u>	<u>29</u>	<u>34,709</u>	<u>175,266</u>	<u>21</u>
Other comprehensive income (loss) (note 6(m)):						
Items that may be reclassified subsequently to profit or loss:						
Financial statement translation differences for foreign operations	(2,744)	(36,597)	(3)	978	(26,647)	(3)
Income tax expense relating to components of other comprehensive income (loss)	-	-	-	-	-	-
Total Items that may be reclassified subsequently to profit or loss	<u>(2,744)</u>	<u>(36,597)</u>	<u>(3)</u>	<u>978</u>	<u>(26,647)</u>	<u>(3)</u>
Other comprehensive income (loss), net of tax	<u>(2,744)</u>	<u>(36,597)</u>	<u>(3)</u>	<u>978</u>	<u>(26,647)</u>	<u>(3)</u>
Total comprehensive income	<u>\$ 61,438</u>	<u>287,292</u>	<u>26</u>	<u>35,687</u>	<u>148,619</u>	<u>18</u>
Earnings per share (note 6(n)) :						
Basic earnings per share (in dollars)	<u>\$ 0.81</u>	<u>4.07</u>		<u>0.44</u>	<u>2.20</u>	
Diluted earnings per share (in dollars)	<u>\$ 0.81</u>	<u>4.07</u>		<u>0.44</u>	<u>2.20</u>	

See accompanying notes to financial statements.

Reviewed only, not audited in accordance with the generally accepted auditing standards

CHLITINA HOLDING LIMITED AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three-month periods ended March 31, 2016 and 2015

(All amounts expressed in thousands dollars)

	Equity attributable to shareholders of the parent						Financial statements translation differences for foreign operations		Total equity					
	Common stock		Capital surplus		Legal reserve		Retained earnings		Total		Financial statements translation differences for foreign operations		Total equity	
	CNY	TWD	CNY	TWD	CNY	TWD	CNY	TWD	CNY	TWD	CNY	TWD	CNY	TWD
Balance at January 1, 2015	\$ 161,772	794,924	286,950	1,419,463	21,217	102,821	174,019	884,868	195,236	987,689	9,927	127,507	653,885	3,329,583
Net income	-	-	-	-	-	-	34,709	175,266	34,709	175,266	-	-	34,709	175,266
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	978	(26,647)	978	(26,647)
Total comprehensive income (loss)	-	-	-	-	-	-	34,709	175,266	34,709	175,266	978	(26,647)	35,687	148,619
Balance at March 31, 2015	\$ 161,772	794,924	286,950	1,419,463	21,217	102,821	208,728	1,060,134	229,945	1,162,955	10,905	100,860	689,572	3,478,202
Balance at January 1, 2016	\$ 161,772	794,924	294,208	1,456,484	36,908	178,405	274,640	1,419,680	311,548	1,598,085	22,607	97,236	790,135	3,946,729
Net income	-	-	-	-	-	-	64,182	323,889	64,182	323,889	-	-	64,182	323,889
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	(2,744)	(36,597)	(2,744)	(36,597)
Total comprehensive income (loss)	-	-	-	-	-	-	64,182	323,889	64,182	323,889	(2,744)	(36,597)	61,438	287,292
Balance at March 31, 2016	\$ 161,772	794,924	294,208	1,456,484	36,908	178,405	338,822	1,743,569	375,730	1,921,974	19,863	60,639	851,573	4,234,021

See accompanying notes to financial statements.

Reviewed only, not audited in accordance with the generally accepted auditing standards

CHLITINA HOLDING LIMITED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three-month periods ended March 31, 2016 and 2015

(All amounts expressed in thousands dollars)

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
<b>Cash flows from operating activities:</b>				
Consolidated net income before tax	\$ 85,073	429,312	43,150	217,890
<b>Adjustments:</b>				
Adjustments to reconcile profit and loss				
Depreciation	4,502	22,719	4,401	22,224
Amortization	801	4,042	641	3,237
Net gains on financial assets at fair value through profit or loss	(445)	(2,246)	(260)	(1,313)
Interest expenses	848	4,279	-	-
Interest income	(1,444)	(7,287)	(3,019)	(15,244)
Share of loss of associates accounted for under equity method	216	1,090	509	2,570
Losses on disposal of property, plant and equipment	36	182	10	49
Total adjustments to reconcile profit and loss	4,514	22,779	2,282	11,523
Changes in assets / liabilities relating to operating activities:				
Net changes in operating assets:				
Accounts receivable	(29)	(144)	(114)	(575)
Accounts receivable—related parties	75,468	380,842	(10,586)	(53,396)
Other receivable	2,666	13,454	(791)	(3,990)
Other accounts receivable—related parties	86	434	5,385	27,162
Inventories	(6,993)	(35,289)	(6,300)	(31,777)
Prepayments	(3,369)	(17,001)	(5,629)	(28,393)
Other current assets	(368)	(1,857)	(36)	(182)
Total changes in operating assets, net	67,461	340,439	(18,071)	(91,151)
Net changes in operating liabilities:				
Accounts payable	(12,708)	(64,130)	7,485	37,754
Accounts payable—related parties	(514)	(2,594)	1,047	5,281
Other payables	(315)	(1,590)	(2,418)	(12,196)
Other payables—related parties	(490)	(2,473)	(307)	(1,549)
Advance receipts	(10,569)	(53,335)	5,338	26,925
Other current liabilities	(10,868)	(54,844)	8,653	43,646
Net defined benefit liabilities	(416)	(2,100)	8	40
Guarantee deposits	239	1,206	411	2,073
Total changes in operating liabilities, net	(35,641)	(179,860)	20,217	101,974
Total changes in operating assets / liabilities, net	31,820	160,579	2,146	10,823
Total adjustments	36,334	183,358	4,428	22,346
Cash provided by operating activities	121,407	612,670	47,578	240,236
Income tax paid	(13,861)	(69,948)	(3,244)	(16,363)
Net cash provided by operating activities	107,546	542,722	44,334	223,873
<b>Cash flows from investing activities:</b>				
Acquisition of financial assets at fair value through profit or loss	(730,878)	(3,633,926)	(154,665)	(780,130)
Proceeds from disposal of financial assets at fair value through profit or loss	731,985	3,639,429	136,907	690,559
Acquisition of investments accounted for under equity method	-	-	(156)	(787)
Acquisition of property, plant and equipment	(1,403)	(6,976)	(892)	(4,500)
Acquisition of intangible assets	(3,654)	(18,170)	-	-
Decrease in other financial assets	21,236	107,165	41,082	207,218
Increase in other non-current assets	(27,632)	(139,442)	-	-
Interest received	1,338	6,752	3,024	15,270
Net cash provided by (used in) investing activities	(9,008)	(45,168)	25,300	127,630
Effects of changes in exchange rates	(2,058)	(33,495)	689	(19,514)
Increase in cash and cash equivalents	96,480	464,059	70,323	331,989
Cash and cash equivalents at beginning of period	679,967	3,396,435	473,341	2,410,252
Cash and cash equivalents at end of period	\$ 776,447	3,860,494	543,664	2,742,241

See accompanying notes to financial statements.

Reviewed only, not audited in accordance with the generally accepted auditing standards

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**March 31, 2016 and 2015**

**(All amounts expressed in thousands dollars unless otherwise stated)**

**(1) Company history**

CHLITINA HOLDING LIMITED (the Company) was incorporated in Cayman Islands on July 3, 2012, as a corporation limited by shares in accordance with the Companies Act, Cap 22 of the Cayman Islands. In order to publish the stock in Taiwan Stock Exchange, the subsidiaries were reorganized by changing the stocks. This is a holding company with no corporate income tax that should be imposed according to the local law and has limited liability. The Company and its subsidiaries (the Group) are mainly engaged in the manufacture and sale of cosmetics, instead of professional investment. On November 27, 2013, the Company was approved and listed on Taiwan Stock Exchange (TWSE).

**(2) Financial statements authorization date and authorization process**

The consolidated financial statements were reported to the Board of Directors on May 12, 2016.

**(3) New standards and interpretations not yet adopted**

Standards or interpretations issued, revised or amended, which were recognized by the International Accounting Standards Boards ("IASB") and have been effective since the end of the reporting period (collectively, reporting period), but not yet endorsed by the Financial Supervisory Commission ("FSC"), at the date of issuance of the Company's financial statements are listed below:

<b>New standards and amendments and interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 15 "Explain of IFRS 15"	January 1, 2018

The Group is currently evaluating the impact from the above mentioned standards and amendments on its financial position and operating results. Any related impact will be disclosed when the evaluation is completed.

In addition to the above mentioned, the new standards and amendments which have not yet been adopted to the consolidated financial statements are consistent with the consolidated financial statements in the year ended 2015 disclosed in note (3).

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (4) Significant accounting policies

Except for the following, the significant accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2015 and the related information referred to note 4 of the consolidated financial statement for the year ended December 31, 2015.

##### (a) Statement of compliance

In order to follow the requirements of an entity being listed for the first time in Taiwan, these consolidated interim financial statements have been prepared in accordance with the comparison table of account codes for general industries announced by the Taiwan security authorities, IAS 34 "Interim Financial Reporting", "Order No. Financial-Supervisory-Securities-Auditing-10200546801", and do not include all of the information required by the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations (hereinafter referred to as the IFRSs) for a complete set of the consolidated financial statements.

##### (b) Basis of consolidation

List of subsidiaries in the consolidated financial statements

Name of subsidiary	Primary business	The creating location/date	Percentage of ownership of the Company		Issuing and paid-in /authorized capital
			Direct	Indirect	
Chlitina Group Limited	Investing	British Virgin IS. November 8, 2011	100%		USD32,067,073/ USD32,067,073
Chlitina International Limited	Investing	British Virgin IS. June 25, 2007	-	100%	USD17,000,001/ USD17,000,001
Chlitina Marketing Limited	Investing	British Virgin IS. November 8, 2012	-	100%	USD10,695,997/ USD10,695,997
Hong Kong Chlitina International Limited (Hong Kong Chlitina)	Investing and trading of skincare products	Hong Kong December 15, 2009	-	100%	HKD62,150,001/ HKD62,150,001
Chlitina Intelligence Limited	Investing	British Virgin IS. April 3, 2012	-	100%	USD1/ USD1
Centre de Recherche et de Developpement de CHLITINA FRANCE EURL (Chlitina France EURL)	Research and development center	France June 9, 2008	-	100%	EUR5,000/ EUR5,000
Chlitina (Shanghai)Trade Limited (Chlitina Shanghai)	Dealer of skincare products	China November 14, 2006	-	100%	USD8,570,000/ USD8,570,000
Weishuo (Shanghai) Daily Product Limited (Weishuo)	Production and trading of skincare products	China February 28, 2007	-	100%	USD2,150,000/ USD2,150,000
British Virgin IS. Chlitina Marketing Limited Taiwan Branch (Chlitina Marketing Taiwan Branch)	Trading of skincare products and research and development center	Republic of China December 27, 2012	-	100%	Working Capital TWD318,084 thousand
W-Amber International Limited (Formerly called as Crystal Asia International Limited)	Investing	British Virgin IS. May 7, 2014	-	100%	USD12,000,000/ USD12,000,000

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of subsidiary	Primary business	The creating location/date	Percentage of ownership of the Company		Issuing and paid-in /authorized capital
			Direct	Indirect	
W-Amber Marketing Limited (Formerly called as Crystal Asia Marketing Limited)	Investing	British Virgin IS. May 7, 2014	-	100%	USD12,000,000/ USD12,000,000
Hong Kong Crystal Asia International Limited	Investing	Hong Kong July 11, 2014	-	100%	HKD92,800,000/ HKD92,800,000
Wuguan (Shanghai)Trade Limited (Wuguan)	Dealer of skincare products and supplementary health care products	Hong Kong November 14, 2014	-	100%	USD2,000,000/ USD2,000,000
Weihu (Shanghai)Trade Limited (Weihu)	Investing, dealer of skincare products and supplementary health care products	Hong Kong November 6, 2014	-	100%	USD8,000,000/ USD8,000,000
British Virgin IS. Chlitina Intelligence Limited Taiwan Branch (Chlitina Intelligence Taiwan Branch)	Holder of intelligence	Republic of China February 23, 2016	-	100%	Working Capital TWD12,000 thousand

(c) Defined benefit plans

The pension cost in the condensed consolidated interim financial statements is calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other one off events.

(d) Income taxes

Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expense for the year is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the effective tax rate at time of realization or liquidation, and recognized directly in equity or other comprehensive income as tax expense.

(5) Significant accounting judgments, estimations, assumptions, and sources of estimation uncertainty

The preparation of the condensed consolidated interim financial statements in conformity with IFRSs (in accordance with IAS 34 "Interim Financial Reporting") requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

In preparation of the condensed consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2015. For related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2015.

#### (6) Explanation of significant accounts

##### (a) Cash and Cash equivalents

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Cash on hand	\$ 920	4,574	334	1,668	261	1,316
Savings deposits	475,101	2,362,202	354,990	1,773,175	287,177	1,448,521
Time deposits	140,460	698,367	24,959	124,670	142,769	720,127
Cash equivalents	<u>159,966</u>	<u>795,351</u>	<u>299,684</u>	<u>1,496,922</u>	<u>113,457</u>	<u>572,277</u>
Cash and cash equivalents per consolidated statements of cash flows	<u>\$ 776,447</u>	<u>3,860,494</u>	<u>679,967</u>	<u>3,396,435</u>	<u>543,664</u>	<u>2,742,241</u>

As of March 31, 2016, December 31 and March 31, 2015, cash equivalents referred to fixed rate financial instruments registered by Shanghai Stock Exchange with maturities of 7, 14 and 28 days, respectively.

Time deposits with maturity days beyond 3 months were recorded under "Other current financial assets". Please refer to note 6(e) for further information.

The disclosure of sensitivity analysis of the Group's financial assets and liabilities were recorded under note 6 (r).

##### (b) Financial assets at fair value through profit or loss—current

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Fund	\$ -	-	<u>2</u>	<u>9</u>	<u>18,024</u>	<u>90,913</u>

Please refer to 6(q) for net gains or losses on disposal of financial assets and liabilities remeasured at fair value through profit and loss.

##### (c) Accounts receivable and other receivables (include related party)

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Accounts receivable	\$ 249	1,238	220	1,099	133	671
Accounts receivable—related parties	57,663	286,701	133,131	664,989	15,980	80,603
Other receivables	1,839	9,143	4,399	21,973	2,536	12,792
Other receivables—related parties	<u>860</u>	<u>4,276</u>	<u>946</u>	<u>4,725</u>	<u>996</u>	<u>5,024</u>
	<u>\$ 60,611</u>	<u>301,358</u>	<u>138,696</u>	<u>692,786</u>	<u>19,645</u>	<u>99,090</u>

The accounts receivable and other receivables of the Group, net, were not pledged as collateral.

(Continued)



## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The carrying amounts of notes and accounts receivable of the Group with short maturity were not discounted under the assumption that the carrying amount approximates the fair value.

The Group had no aging analysis of overdue accounts receivable and other receivables.

(d) Inventories

The components of the Group's inventories were as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Finished goods	\$ 61,413	305,345	56,886	284,146	36,309	183,142
Work in progress	3,017	15,001	5,593	27,937	2,472	12,469
Raw materials and supplies	<u>30,006</u>	<u>149,190</u>	<u>24,964</u>	<u>124,695</u>	<u>14,540</u>	<u>73,340</u>
	<u>\$ 94,436</u>	<u>469,536</u>	<u>87,443</u>	<u>436,778</u>	<u>53,321</u>	<u>268,951</u>

As of March 31, 2016, December 31 and March 31, 2015, the inventories of the Group were not pledged as collateral.

The analysis of the amount of inventories recognized as costs and included in profit or loss was as follows:

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Inventory costs	\$ 52,481	264,841	41,207	208,081
Loss on market value of inventory	<u>962</u>	<u>4,855</u>	<u>61</u>	<u>308</u>
Total	<u>\$ 53,443</u>	<u>269,696</u>	<u>41,268</u>	<u>208,389</u>

(e) Other financial assets – current

The components of other financial assets-current at reporting date were time deposits with a maturity of three months and above.

(f) Investments accounted for using equity method

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	CNY	CNY	TWD
Associate	<u>\$ 15,638</u>	<u>77,752</u>	<u>15,854</u>	<u>79,191</u>	<u>16,199</u>	<u>81,708</u>

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## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

i) Associate

The associate accounted for using the equity method in the consolidated financial statements was not individually significant. The summarized financial information of the associate was as follows, and the amounts were included in financial information of the associate in the consolidated interim financial statements:

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Carrying amounts of the equity of associate which not individually significant	\$ <u>15,638</u>	<u>77,752</u>	<u>15,854</u>	<u>79,191</u>	<u>16,199</u>	<u>81,708</u>

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Aggregate amounts of the Group's share of the associate:				
Net loss from continuing operations	\$ 216	1,090	509	2,570
Other comprehensive loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income	\$ <u>216</u>	<u>1,090</u>	<u>509</u>	<u>2,570</u>

ii) Collateral

As of March 31, 2016 and 2015, the investment accounted for using equity method of the Group was not pledged as collateral.

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**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(g) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the six month periods ended were March 31, 2016 and 2015 as follows:

Unit: CNY thousand

	Land	Buildings	Machinery	Transportation	Furniture and fixtures and other equipment	Construction in progress	Total
<b>Cost or deemed cost:</b>							
Balance at January 1, 2016	\$ 21,161	183,714	13,134	5,048	51,900	3,000	277,957
Additions	-	-	-	-	765	638	1,403
Disposal	-	-	-	-	(320)	-	(320)
Reclassification	-	-	-	-	30	(30)	-
Effect of movements in exchange rates	97	-	-	-	44	5	146
Balance at March 31, 2016	<u>\$ 21,258</u>	<u>183,714</u>	<u>13,134</u>	<u>5,048</u>	<u>52,419</u>	<u>3,613</u>	<u>279,186</u>
Balance at January 1, 2015	\$ 20,757	183,243	10,750	5,048	46,527	4,176	270,501
Additions	-	-	-	-	856	36	892
Disposal	-	-	-	-	(60)	-	(60)
Reclassification	-	-	-	-	1,868	(1,868)	-
Effect of movements in exchange rates	198	-	-	-	66	13	277
Balance at March 31, 2015	<u>\$ 20,955</u>	<u>183,243</u>	<u>10,750</u>	<u>5,048</u>	<u>49,257</u>	<u>2,357</u>	<u>271,610</u>
<b>Depreciation and impairment loss:</b>							
Balance at January 1, 2016	\$ -	25,471	3,468	2,615	32,882	-	64,436
Depreciation	-	2,073	314	208	1,907	-	4,502
Reclassification	-	-	-	-	(284)	-	(284)
Effect of changes in exchange rates	-	-	-	-	16	-	16
Balance at March 31, 2016	<u>\$ -</u>	<u>27,544</u>	<u>3,782</u>	<u>2,823</u>	<u>34,521</u>	<u>-</u>	<u>68,670</u>
Balance at January 1, 2015	\$ -	17,197	2,408	1,778	23,540	-	44,923
Depreciation	-	2,108	247	213	1,833	-	4,401
Disposal	-	-	-	-	(50)	-	(50)
Effect of movements in exchange rates	-	-	-	-	11	-	11
Balance at March 31, 2015	<u>\$ -</u>	<u>19,305</u>	<u>2,655</u>	<u>1,991</u>	<u>25,334</u>	<u>-</u>	<u>49,285</u>
<b>Carrying value:</b>							
Balance at January 1, 2016	\$ 21,161	158,243	9,666	2,433	19,018	3,000	213,521
Balance at March 31, 2016	<u>\$ 21,258</u>	<u>156,170</u>	<u>9,352</u>	<u>2,225</u>	<u>17,898</u>	<u>3,613</u>	<u>210,516</u>
Balance at January 1, 2015	\$ 20,757	166,046	8,342	3,270	22,987	4,176	225,578
Balance at March 31, 2015	<u>\$ 20,955</u>	<u>163,938</u>	<u>8,095</u>	<u>3,057</u>	<u>23,923</u>	<u>2,357</u>	<u>222,325</u>

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**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Unit: TWD thousand

	Land	Buildings	Machinery	Transportation	Furniture and fixtures and other equipment	Construction in progress	Total
<b>Cost or deemed cost:</b>							
Balance at January 1, 2016	\$ 105,699	917,651	65,604	25,215	259,242	14,985	1,388,396
Additions	-	-	-	-	3,804	3,172	6,976
Disposal	-	-	-	-	(1,615)	-	(1,615)
Reclassification	-	-	-	-	149	(149)	-
Effect of movements in exchange rates	(4)	(4,225)	(302)	(116)	(953)	(44)	(5,644)
Balance at March 31, 2016	\$ 105,695	913,426	65,302	25,099	260,627	17,964	1,388,113
Balance at January 1, 2015	\$ 105,695	933,074	54,739	25,704	236,915	21,265	1,377,392
Additions	-	-	-	-	4,318	182	4,500
Disposal	-	-	-	-	(301)	-	(301)
Reclassification	-	-	-	-	9,422	(9,422)	-
Effect of movements in exchange rates	-	(8,796)	(516)	(242)	(1,905)	(136)	(11,595)
Balance at March 31, 2015	\$ 105,695	924,278	54,223	25,462	248,449	11,889	1,369,996
<b>Depreciation and impairment loss:</b>							
Balance at January 1, 2016	\$ -	127,228	17,323	13,062	164,246	-	321,859
Depreciation	-	10,461	1,585	1,050	9,623	-	22,719
Reclassification	-	-	-	-	(1,433)	-	(1,433)
Effect of changes in exchange rates	-	(740)	(104)	(76)	(798)	-	(1,718)
Balance at March 31, 2016	\$ -	136,949	18,804	14,036	171,638	-	341,427
Balance at January 1, 2015	\$ -	87,567	12,262	9,059	119,861	-	228,749
Depreciation	-	10,645	1,247	1,076	9,256	-	22,224
Disposal	-	-	-	-	(252)	-	(252)
Effect of movements in exchange rates	-	(838)	(122)	(92)	(1,080)	-	(2,132)
Balance at March 31, 2015	\$ -	97,374	13,387	10,043	127,785	-	248,589
<b>Carrying value:</b>							
Balance at January 1, 2016	\$ 105,699	790,423	48,281	12,153	94,996	14,985	1,066,537
Balance at March 31, 2016	\$ 105,695	776,477	46,498	11,063	88,989	17,964	1,046,686
Balance at January 1, 2015	\$ 105,695	845,507	42,477	16,645	117,054	21,265	1,148,643
Balance at March 31, 2015	\$ 105,695	826,904	40,836	15,419	120,664	11,889	1,121,407

The Group has entered into an agreement with its non-related parties to buy a building in Sichuan, China, on March 17, 2016. The amount of the contract was CNY2,731 thousand (TWD136,387 thousand). The Group had paid the full amount and recognized it as other non current asset, which will be reclassified to property, plant and equipment after the title of the building has been transferred to the Group.

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**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(h) Intangible assets

	Computer software		Others		Total	
	CNY	TWD	CNY	TWD	CNY	TWD
Cost:						
Balance at January 1, 2016	\$ 10,097	50,435	167	834	10,264	51,269
Additions	-	-	3,654	18,170	3,654	18,170
Effect of movements in exchange rates	-	(233)	(3)	(19)	(3)	(252)
Balance at March 31, 2016	<u>\$ 10,097</u>	<u>50,202</u>	<u>3,818</u>	<u>18,985</u>	<u>13,915</u>	<u>69,187</u>
Balance at January 1, 2015	\$ 21,487	109,340	-	-	21,487	109,340
處分	(8,646)	(43,610)	-	-	(8,646)	(43,610)
Effect of changes in exchange rates	38	(768)	-	-	38	(768)
Balance at March 31, 2015	<u>\$ 12,879</u>	<u>64,962</u>	<u>-</u>	<u>-</u>	<u>12,879</u>	<u>64,962</u>
Amortization and impairment loss:						
Balance at January 1, 2016	\$ 2,361	11,794	18	90	2,379	11,884
Amortization	647	3,265	154	777	801	4,042
Effect of changes in exchange rates	-	(105)	1	(3)	1	(108)
Balance at March 31, 2016	<u>\$ 3,008</u>	<u>14,954</u>	<u>173</u>	<u>864</u>	<u>3,181</u>	<u>15,818</u>
Balance at January 1, 2015	\$ 426	2,096	-	-	426	2,096
Amortization	641	3,237	-	-	641	3,237
Effect of changes in exchange rates	-	49	-	-	-	49
Balance at March 31, 2015	<u>\$ 1,067</u>	<u>5,382</u>	<u>-</u>	<u>-</u>	<u>1,067</u>	<u>5,382</u>
Carrying value:						
Balance at January 1, 2016	<u>\$ 7,736</u>	<u>38,641</u>	<u>149</u>	<u>744</u>	<u>7,885</u>	<u>39,385</u>
Balance at March 31, 2016	<u>\$ 7,089</u>	<u>35,248</u>	<u>3,645</u>	<u>18,121</u>	<u>10,734</u>	<u>53,369</u>
Balance at January 1, 2015	<u>\$ 21,061</u>	<u>107,244</u>	<u>-</u>	<u>-</u>	<u>21,061</u>	<u>107,244</u>
Balance at March 31, 2015	<u>\$ 11,812</u>	<u>59,580</u>	<u>-</u>	<u>-</u>	<u>11,812</u>	<u>59,580</u>

(i) Bonds payable

The Company issued unsecured convertible bonds as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Bonds payable of ending balance	<u>\$ 171,561</u>	<u>853,000</u>	<u>169,914</u>	<u>848,721</u>	<u>-</u>	<u>-</u>
Embedded Derivatives—put option and call option (financial liability at fair value through profit or loss—non-current)	<u>\$ 1,285</u>	<u>6,390</u>	<u>613</u>	<u>3,060</u>	<u>-</u>	<u>-</u>
Equity component—conversion options (Capital surpluses— Share options)	<u>\$ 7,258</u>	<u>37,021</u>	<u>7,258</u>	<u>37,021</u>	<u>-</u>	<u>-</u>

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## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Embedded Derivatives—put option and call option measured at fair value through profit or loss (reported in other gains and losses)	\$ <u>(660)</u>	<u>(3,330)</u>	<u>-</u>	<u>-</u>
Interest expenses (financial costs)	\$ <u>848</u>	<u>4,279</u>	<u>-</u>	<u>-</u>

The Group did not have any significant change on the information and regulation of the convertible bonds. For relative information, please refers to note 6(i) of the consolidated financial statements for the year ended December 31, 2015.

(j) Other current liabilities

The components of other current liabilities of the Group at the reporting date were as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Accrued expense	\$ 40,864	203,176	51,072	255,104	44,546	224,690
Tax payable	9,391	46,692	9,647	48,187	16,811	84,794
Deferred income	<u>3,199</u>	<u>15,905</u>	<u>3,603</u>	<u>17,997</u>	<u>3,649</u>	<u>18,406</u>
	<u>\$ 53,454</u>	<u>265,773</u>	<u>64,322</u>	<u>321,288</u>	<u>65,006</u>	<u>327,890</u>

(k) Employee benefits

i) Defined benefit plans

In the prior fiscal year, there was no material volatility of the market, material reimbursement and settlement or other material one-time events. As a result, pension cost in the condensed consolidated interim financial statements was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate as of December 31, 2015 and 2014.

The Group's expenses recognized in profit or loss were as follows:

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
General and administrative expenses	\$ <u>-</u>	<u>-</u>	<u>8</u>	<u>40</u>

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**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

ii) Defined contribution plans

The Group's expenses (under pension plan cost) to the Bureau of Labor Insurance and the local government were as follows:

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Operating costs	\$ 170	858	151	762
Selling expenses	1,307	6,596	1,332	6,726
General and administrative expenses	810	4,087	708	3,574
Research and development expenses	<u>12</u>	<u>61</u>	<u>12</u>	<u>61</u>
	<u>\$ 2,299</u>	<u>11,602</u>	<u>2,203</u>	<u>11,123</u>

(l) Income tax

The amounts of the Group's income tax were as follows:

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Current income tax expense				
Current period	\$ 18,208	91,884	8,665	43,755
Deferred income tax benefit				
Origination and reversal of temporary differences	2,683	13,539	(224)	(1,131)
Income tax expenses on continuing operations	<u>\$ 20,891</u>	<u>105,423</u>	<u>8,441</u>	<u>42,624</u>

(m) Capital and other equity

Except for the following disclosure, there was no significantly change for capital and other equity for the periods from January 1 to March 31, 2016 and 2015. For the related information, please refer to note 6(m) of the consolidated financial statements for the year ended December 31, 2015.

i) Retained earnings

The Company's articles of incorporation require that the Company's net earnings from the current year shall be used to offset prior years' deficits, pay income tax, provide 10% as legal reserve, provide or reverse a special reserve in accordance with applicable law, and pay 1% to 5% as employee bonuses and no more than 3% as directors' and supervisors' remuneration. After the abovementioned appropriations, the distribution of the remaining earnings, if any, should be proposed by the board of directors and is subject to the stockholders' approval.

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## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Company's business cycle is in the constant growth stage. In consideration of the Company's future capital requirements, its long term financial plan and shareholders' satisfaction as to cash inflow, the Company's articles of incorporation stipulate that the board of directors may propose 10% or more of the distributable earnings as dividends, of which at least 10% should be distributed as cash dividends. However, such distribution depends on the current earnings and the capital condition, and is subject to the approval of stockholders.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The Board of Directors proposed the amendments on December 17, 2015, which will be approved at the 2016 annual shareholders—meeting. Please refer to employee benefits expense in Note 6(p).

The Company estimated the employee bonuses of CNY472 thousand (TWD2,383 thousand) and the directors' and supervisors' emoluments of CNY236 thousand (TWD1,191 thousand) for the three months ended March 31, 2015. The above mentioned is not accordance with the revised ROC Company Act. These amounts are calculated based on the Company's net profit for the period by using the earnings allocation method as stated under the Company's articles of association. These bonuses are expensed under operating expenses or operating costs.

Earning distribution for 2015 and 2014 were approved by the board of directors on March 4, 2016, and is subject to the shareholders' approval on June 17, 2015. The relevant dividend distributions to shareholders were as follows:

	Amount per share (New Taiwan dollars)	2015		2014	
		Amount		Amount	
		CNY	TWD	CNY	TWD
Dividends distributed to common shareholders:					
Cash	\$ 10.00	<u>157,692</u>	<u>794,924</u>	7.00	<u>115,517</u> <u>556,446</u>

ii) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	
	CNY	TWD
Balance at January 1, 2016	\$ 22,607	97,236
Foreign exchange differences arising from net assets of foreign operation	(2,744)	(36,597)
Balance at March 31, 2016	<u>\$ 19,863</u>	<u>60,639</u>
Balance at January 1, 2015	\$ 9,927	127,507
Foreign exchange differences arising from net assets of foreign operation	978	(26,647)
Balance at March 31, 2015	<u>\$ 10,905</u>	<u>100,860</u>

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**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(n) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share was as follows:

i) Basic earnings per share

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Profit attributable to ordinary shareholders of the Company	\$ <u>64,182</u>	<u>323,889</u>	<u>34,709</u>	<u>175,266</u>
Weighted-average number of ordinary shares	<u>79,492</u>	<u>79,492</u>	<u>79,492</u>	<u>79,492</u>
Basic earnings per share (in dollars)	\$ <u>0.81</u>	<u>4.07</u>	<u>0.44</u>	<u>2.20</u>

ii) Diluted earnings per share

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Profit attributable to ordinary shareholders of the Company (diluted)	\$ <u>64,182</u>	<u>323,889</u>	<u>34,709</u>	<u>175,266</u>
Weighted-average number of ordinary shares	79,492	79,492	79,492	79,492
Impact of potential common shares				
Effect of employee stock bonus	<u>122</u>	<u>122</u>	<u>100</u>	<u>100</u>
Weighted-average number of ordinary shares (diluted)	<u>79,614</u>	<u>79,614</u>	<u>79,592</u>	<u>79,592</u>
Diluted earnings per share (in dollars)	\$ <u>0.81</u>	<u>4.07</u>	<u>0.44</u>	<u>2.20</u>

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(o) Revenue

The details of the Group's revenue for the three months periods ended March 31, 2016 and 2015 were as follows:

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Net sale of goods	\$ 182,225	919,581	151,187	763,435
Trademark right income	31,756	160,253	9,204	46,477
Special affiliate income	3,087	15,579	1,675	8,458
Skin care service from direct retail outlets and other income	1,465	7,393	1,151	5,813
	<u>\$ 218,533</u>	<u>1,102,806</u>	<u>163,217</u>	<u>824,183</u>

(p) Employees' and directors' emoluments

In accordance with the amendments to Group's article, which has not yet been approved by the shareholders but authorized by the Board of Directors, the Group should contribute 1%~5% of the profit as employee compensation and less than 3% as directors' and supervisors' remuneration when there is profit for the year. However, if the Group has accumulated deficits, the profit should be reserved to offset the deficit. Employees entitled to receive the above mentioned employee compensation, in shares or cash, includes the employees of the subsidiaries of the Group who meet certain specific requirements.

The Company estimated employee bonus and directors' emoluments amounting to CNY1,700 thousand (TWD8,579 thousand) and CNY851 thousand (TWD4,293 thousand) for the three months ended March 31, 2016, respectively. The estimated amounts mentioned above are based on the net profit-pre-tax of each respective ending period multiplied by the amount of the employee bonus and the remuneration of the board of directors and supervisors as specified in the Company's policy. The estimations are reported under operating expenses. The differences between the estimated amounts and those recognized in financial statements approved by the Board of Directors and published to the public, if any, shall be accounted for as a change in accounting estimates and recognized in 2016.

The Company estimated employee bonus and directors' emoluments amounting to CNY5,736 thousand (TWD28,870 thousand) and CNY2,749 thousand (TWD13,833 thousand) for the year 2015, respectively. The information mentioned above can be searched on Market Observation Post System. The differences between the estimated amounts and those recognized in financial statements approved by the Board of Directors and published to the public, if any, shall be accounted for as a change in accounting estimates and recognized in 2016.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(q) Non-operating income and expenses

i) Other income

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Interest income-bank deposits	\$ 1,444	7,287	3,019	15,244
Other	<u>63</u>	<u>318</u>	<u>134</u>	<u>677</u>
	<u>\$ 1,507</u>	<u>7,605</u>	<u>3,153</u>	<u>15,921</u>

ii) Other gains and losses

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Net losses on foreign exchange	\$ (720)	(3,634)	(691)	(3,491)
Net gains on financial assets at fair value through profit or loss	445	2,246	260	1,313
Losses on disposal of property, plant and equipment	(36)	(182)	(10)	(49)
	<u>\$ (311)</u>	<u>(1,570)</u>	<u>(441)</u>	<u>(2,227)</u>

iii) Finance expenses

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Interest expenses	\$ <u>848</u>	<u>4,279</u>	<u>-</u>	<u>-</u>

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(r) Financial instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and in the degree of exposure to credit risk, liquidity risk—interest rate risk and market risk arising from financial instruments. For the related information, please refer to note 6(r) of the consolidated financial statements for the year ended December 31, 2015.

i) Liquidity risk

The following table shows the contract maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within a year	1-2 years	2-5 years	Unit: CNY thousand Over 5 years
<b>March 31, 2016</b>						
Non-derivative financial liabilities						
Bonds payable	\$ 171,561	180,180	-	-	180,180	-
Financial liability at fair value through profit or loss	1,285	1,285	-	-	1,285	-
Accounts payable (including related parties)	20,488	20,488	20,488	-	-	-
Accrued expenses	17,361	17,361	17,361	-	-	-
Other payables (including related parties)	26,210	26,210	26,210	-	-	-
Guarantee deposits	<u>56,231</u>	<u>56,231</u>	<u>56,231</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 293,136</u>	<u>301,755</u>	<u>120,290</u>	<u>-</u>	<u>181,465</u>	<u>-</u>
<b>December 31, 2015</b>						
Non-derivative financial liabilities						
Bonds payable	\$ 169,914	180,180	-	-	180,180	-
Financial liability at fair value through profit or loss	613	613	-	-	613	-
Accounts payable (including related parties)	33,710	33,710	33,710	-	-	-
Accrued expenses	20,178	20,178	20,178	-	-	-
Other payables (including related parties)	27,015	27,015	27,015	-	-	-
Guarantee deposits	<u>55,992</u>	<u>55,992</u>	<u>55,992</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 307,422</u>	<u>317,688</u>	<u>136,895</u>	<u>-</u>	<u>180,793</u>	<u>-</u>
<b>March 31, 2015</b>						
Non-derivative financial liabilities						
Accounts payable (including related parties)	\$ 16,881	16,881	16,881	-	-	-
Accrued expenses	30,627	30,627	30,627	-	-	-
Other payables (including related parties)	23,756	23,756	23,756	-	-	-
Guarantee deposits	<u>53,986</u>	<u>53,986</u>	<u>53,986</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 125,250</u>	<u>125,250</u>	<u>125,250</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

				Unit: TWD thousand		
	Carrying amount	Contractual cash flows	Within a year	1-2 years	2-5 years	Over 5 years
<b>March 31, 2016</b>						
Non-derivative financial liabilities						
Bonds payable	\$ 853,000	900,000	-	-	900,000	-
Financial liability at fair value through profit or loss	6,390	6,390	-	-	6,390	-
Accounts payable (including related parties)	101,867	101,867	101,867	-	-	-
Accrued expenses	86,319	86,319	86,319	-	-	-
Other payables (including related parties)	130,316	130,316	130,316	-	-	-
Guarantee deposits	<u>279,580</u>	<u>279,580</u>	<u>279,580</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>\$1,457,472</b></u>	<u><b>1,504,472</b></u>	<u><b>598,082</b></u>	<u><b>-</b></u>	<u><b>906,390</b></u>	<u><b>-</b></u>
<b>December 31, 2015</b>						
Non-derivative financial liabilities						
Bonds payable	\$ 848,721	900,000	-	-	900,000	-
Financial liability at fair value through profit or loss	3,060	3,060	-	-	3,060	-
Accounts payable (including related parties)	168,381	168,381	168,381	-	-	-
Accrued expenses	100,788	100,788	100,788	-	-	-
Other payables (including related parties)	134,940	134,940	134,940	-	-	-
Guarantee deposits	<u>279,679</u>	<u>279,679</u>	<u>279,679</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>\$1,535,569</b></u>	<u><b>1,586,848</b></u>	<u><b>683,788</b></u>	<u><b>-</b></u>	<u><b>903,060</b></u>	<u><b>-</b></u>
<b>March 31, 2015</b>						
Non-derivative financial liabilities						
Accounts payable (including related parties)	\$ 85,148	85,148	85,148	-	-	-
Accrued expenses	154,483	154,483	154,483	-	-	-
Other payables (including related parties)	119,826	119,826	119,826	-	-	-
Guarantee deposits	<u>272,305</u>	<u>272,305</u>	<u>272,305</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>\$ 631,762</b></u>	<u><b>631,762</b></u>	<u><b>631,762</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

The Group is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

ii) Currency risk

i. Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	Foreign currency	Exchange rate	CNY	TWD
<b>March 31, 2016</b>				
Financial assets:				
Monetary items:				
USD	\$ 28,913	6.4733	187,163	930,574
HKD	\$ 1,940	0.8347	1,619	8,050
CNY	\$ 21,903	1.0000	21,903	108,902
Financial liabilities:				
Monetary items:				
USD	\$ 7	6.4733	45	224
CNY	\$ 5,032	1.0000	5,032	25,019
<b>December 31, 2015</b>				
Financial assets:				
Monetary items:				
USD	\$ 35,435	6.5716	232,865	1,163,161
CNY	\$ 2,007	0.8478	1,702	8,501
TWD	\$ 23,321	1.0000	23,321	116,488
Financial liabilities:				
Monetary items:				
USD	\$ 31	6.5716	204	1,019
CNY	\$ 4,678	1.0000	4,678	23,367
<b>March 31, 2015</b>				
Financial assets:				
Monetary items:				
USD	\$ 1,011	6.2054	6,274	31,646
HKD	\$ 5,023	0.8002	4,019	20,272
CNY	\$ 97,066	1.0000	97,066	489,601
Financial liabilities:				
Monetary items:				
USD	\$ 109	6.2054	676	3,410
CNY	\$ 3,373	1.0000	3,373	17,013
HKD	\$ 113	0.8002	90	454

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## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

ii. Sensitivity analysis

The Group's exposure to foreign currency risk arose from the translation of the foreign currency exchange gains and losses on cash and cash equivalents that were denominated in foreign currency. A strengthening (weakening) 3% of appreciation (depreciation) of the TWD against the USD, HKD, CNY and the TWD for the three months periods ended March 31, 2016 and 2015, with all other variables held constant, would have increased (decreased) the net profit after tax by CNY5,972 thousand (TWD29,693 thousand) and CNY3,075 thousand (TWD15,510 thousand), respectively.

Due to the different functional currencies used by the Group, a summary information on its gain (loss) on foreign exchange had been disclosed in its financial statements. The realized and unrealized gain (loss) on foreign exchanged for the three months periods ended March 31, 2016 and 2015 amounted to CNY720 thousand (TWD3,634 thousand) and CNY691 thousand (TWD3,491 thousand), respectively.

iii) Information for fair value

i. Categories and fair value of financial instruments

Except for the followings, carrying amount of the Group's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market date and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the Regulations.

Unit: CNY thousand

	Carrying amount	March 31, 2016 Fair value			Total
		Level 1	Level 2	Level 3	
Receivables					
Cash and cash equivalents	\$ 776,447	-	-	-	-
Accounts receivable and other receivables (including related parties)	60,611	-	-	-	-
Other financial assets	1,500	-	-	-	-
<b>Total</b>	<b>\$ 838,558</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	Carrying amount	March 31, 2016 Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	\$ 1,285	-	1,285	-	1,285
Financial liabilities measured at amortized cost					
Bond payables	\$ 171,561	-	171,561	-	171,561
Accounts payable and other payables (including related parties)	46,698	-	-	-	-
Accrued expense	17,361	-	-	-	-
Guarantee deposits	56,231	-	-	-	-
Subtotal	291,851	-	171,561	-	171,561
Total	\$ 293,136	-	172,846	-	172,846
		December 31, 2015 Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Available-for-sale and non-derivative financial assets	\$ 2	2	-	-	2
Receivables					
Cash and cash equivalents	679,967	-	-	-	-
Accounts receivable and other receivables (including related parties)	138,696	-	-	-	-
Other financial assets	22,736	-	-	-	-
Subtotal	841,399	-	-	-	-
Total	\$ 841,401	2	-	-	2

(Continued)



**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

	Carrying amount	December 31, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	\$ 613	-	613	-	613
Financial liabilities measured at amortized cost					
Bond payables	169,914	-	169,914	-	169,914
Accounts payable and other payables (including related parties)	60,725	-	-	-	-
Dividend payables	20,178	-	-	-	-
Guarantee deposits	55,992	-	-	-	-
Subtotal	306,809	-	169,914	-	169,914
Total	<u>\$ 307,422</u>	<u>-</u>	<u>170,527</u>	<u>-</u>	<u>170,527</u>
	Carrying amount	March 31, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Available-for-sale and non-derivative financial assets	\$ 18,024	18,024	-	-	18,024
Receivables					
Cash and cash equivalents	543,664	-	-	-	-
Accounts receivable and other receivables (including related parties)	19,645	-	-	-	-
Other financial assets	1,500	-	-	-	-
Subtotal	564,809	-	-	-	-
Total	<u>\$ 582,833</u>	<u>18,024</u>	<u>-</u>	<u>-</u>	<u>18,024</u>

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

		March 31, 2015			
	Carrying amount	Level 1	Level 2	Level 3	Total
		Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Accounts payable and other payables (including related parties)	\$ 40,637	-	-	-	-
Accrued expense	44,546	-	-	-	-
Guarantee deposits	53,986	-	-	-	-
<b>Total</b>	<b>\$ 139,169</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Unit: TWD thousand					
		March 31, 2016			
	Carrying amount	Level 1	Level 2	Level 3	Total
		Fair value			
		Level 1	Level 2	Level 3	Total
Receivables					
Cash and cash equivalents	\$ 3,860,494	-	-	-	-
Accounts receivable and other receivables (including related parties)	301,358	-	-	-	-
Other financial assets	7,458	-	-	-	-
<b>Total</b>	<b>\$ 4,169,310</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	\$ 6,390	-	6,390	-	6,390
Financial liabilities measured at amortized cost					
Bond payables	\$ 853,000	-	853,000	-	853,000
Accounts payable and other payables (including related parties)	232,183	-	-	-	-
Accrued expense	86,319	-	-	-	-
Guarantee deposits	279,580	-	-	-	-
Subtotal	1,451,082	-	853,000	-	853,000
<b>Total</b>	<b>\$ 1,457,472</b>	<b>-</b>	<b>859,390</b>	<b>-</b>	<b>859,390</b>

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	Carrying amount	December 31, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Available-for-sale and non-derivative financial assets	\$ 9	9	-	-	9
Receivables					
Cash and cash equivalents	3,396,435	-	-	-	-
Accounts receivable and other receivables (including related parties)	692,786	-	-	-	-
Other financial assets	<u>113,567</u>	-	-	-	-
Subtotal	<u>4,202,788</u>	-	-	-	-
Total	<u>\$ 4,202,797</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	\$ 3,060	-	3,060	-	3,060
Financial liabilities measured at amortized cost					
Bond payables	848,721	-	848,721	-	848,721
Accounts payable and other payables (including related parties)	303,321	-	-	-	-
Dividend payables	100,788	-	-	-	-
Guarantee deposits	<u>279,679</u>	-	-	-	-
Subtotal	<u>1,532,509</u>	-	<u>848,721</u>	-	<u>848,721</u>
Total	<u>\$ 1,535,569</u>	<u>-</u>	<u>851,781</u>	<u>-</u>	<u>851,781</u>

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

	Carrying amount	March 31, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Available-for-sale and non-derivative financial assets	\$ 90,913	90,913	-	-	90,913
Receivables					
Cash and cash equivalents	2,742,241	-	-	-	-
Accounts receivable and other receivables (including related parties)	99,090	-	-	-	-
Other financial assets	7,566	-	-	-	-
Subtotal	<u>2,848,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,939,810</u>	<u>90,913</u>	<u>-</u>	<u>-</u>	<u>90,913</u>
Financial liabilities measured at amortized cost					
Accounts payable and other payables (including related parties)	\$ 204,974	-	-	-	-
Accrued expense	154,483	-	-	-	-
Guarantee deposits	<u>272,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 631,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

ii. Valuation techniques in financial instruments measured at fair value – Non-derivative financial instruments

If there are quoted prices in the active markets for financial instruments, the fair value of those prices may be based on the quoted market prices.

The fair value of financial assets and liabilities traded in the active markets will be based on the quoted market prices when the quoted prices can be obtained from the exchanges, brokers, underwriters, industrial unions, pricing service agencies or authorities, as well as if they can represent as the one usually traded in fair market transaction in practice. If the requirements above-mentioned don't actually accomplish, the market ought to be seen inactive condition. Generally speaking, the index of inactive market are based on the large difference of the price between buying and selling transaction, the difference of the price between buying and selling transaction distinctively increasing or little quantity of trading volume.

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### iii. Fair value hierarchy

The Group considers the carrying amounts of its financial assets and financial liabilities based on the observable market data. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows :

- 1) Level 1: quoted prices (unadjusted) in the active markets for identified assets or liabilities.
- 2) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- 3) Level 3: inputs for the assets or liability that are not based on the observable market data (unobservable inputs).

#### iv. Transfers between Level 1 and Level 2

During the three months periods ended March 31, 2016 and 2015, there were no significant transfers between Level 1 and Level 2.

#### (s) Financial risk management

There was no significant change in the Group's objective and policies for the financial risk management in the consolidated interim financial statements for the three months periods ended March 31, 2016 and 2015 as compared with the consolidated financial statements for the year ended December 31, 2015. For the related information, please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2015.

#### (t) Capital management

The Group's objective, policies, and process of capital management of the condensed consolidated interim financial statements for the three months periods ended March 31, 2016 and 2015 were the same as those of the consolidated financial statements for the year ended December 31, 2015. There was no significant change on the summary of quantitative data of capital management as compared with the consolidated financial statements for the year ended December 31, 2015. For the related information, please refer to note 6(t) of the consolidated financial statements for the year December 31, 2015.

### (7) Related-party transactions

#### (a) Parent Company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) Significant related party transactions

i) Operating revenue

The amounts of significant sales transactions between the Group and the related parties were as follows:

	<b>Three-month periods ended March 31</b>			
	<b>2016</b>		<b>2015</b>	
	CNY	TWD	CNY	TWD
Other related parties	\$ <u>70,736</u>	<u>356,961</u>	<u>18,897</u>	<u>95,419</u>

There were no significant differences in the price between the related parties and other customers. The collection term for related parties was two months. For other customers, advance payment was required. Likewise, the trademark right income for related parties was a period of six months and two months for the three months periods ended March 31, 2016 and 2015, and was to be disbursed in two months after the payment request.

ii) Purchases

The amount of purchase transactions between the Group and the related parties were as follows:

	<b>Three-month periods ended March 31</b>			
	<b>2016</b>		<b>2015</b>	
	CNY	TWD	CNY	TWD
Other related parties	\$ <u>8,284</u>	<u>41,805</u>	<u>3,960</u>	<u>19,996</u>

The selling price was the agreed price between the Group and each related party, and the payment term was two months, which was similar to those of the non-related suppliers.

iii) Receivables from related parties

The receivables due from related parties were as follows:

Accounts	Type of related parties	March 31, 2016		December 31, 2015		March 31, 2015	
		CNY	TWD	CNY	TWD	CNY	TWD
Accounts receivable	Other related parties	\$ 57,663	286,701	133,131	664,989	15,980	80,603
Other receivable	Other related parties	860	4,276	946	4,725	996	5,024
		<u>\$ 58,523</u>	<u>290,977</u>	<u>134,077</u>	<u>669,714</u>	<u>16,976</u>	<u>85,627</u>

Receivables from related parties were unsecured and interest-free.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

iv) Payables to related parties

The payables to related parties were as follows:

Accounts	Categories of related parties	March 31, 2016		December 31, 2015		March 31, 2015	
		CNY	TWD	CNY	TWD	CNY	TWD
Accounts payable	Other related parties	\$ 3,937	19,575	4,451	22,233	2,625	13,241
Other payable	Other related parties	<u>2,114</u>	<u>10,511</u>	<u>2,604</u>	<u>13,007</u>	<u>3,404</u>	<u>17,170</u>
		<u>\$ 6,051</u>	<u>30,086</u>	<u>7,055</u>	<u>35,240</u>	<u>6,029</u>	<u>30,411</u>

Payables to related parties were unsecured and interest-free.

v) Prepayments

The prepayments to related parties (recorded under prepayments) were as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Other related parties	<u>\$ 2,177</u>	<u>10,824</u>	<u>2,663</u>	<u>13,302</u>	<u>1,306</u>	<u>6,587</u>

vi) Property exchange

The Group purchased from non-related parties intangible assets—computer software amounting to CNY21,487 thousand(TWD109,340 thousand). On March 12, 2015, the Board of Director passed a resolution to grant its other related parties part of the rights to access the software. Based on the proportion of the rights granted, each member of the Group was to assume its part of liability on the cost of acquisition amounting to CNY8,646 thousand(TWD43,610 thousand). As of March 31, 2015, all liabilities mentioned above had been paid off.

vii) Services expense

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Other related parties	<u>\$ 2,280</u>	<u>11,506</u>	<u>293</u>	<u>1,480</u>

For the services provided by the related parties, price and terms were determined in accordance with mutual agreements.

viii) Leases

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Other related parties	<u>\$ 1,867</u>	<u>9,423</u>	<u>2,253</u>	<u>11,376</u>

The lease contract was signed in which the rental fee was determined based on the ongoing market rate and mutual agreements.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(c) Key management personnel compensations

Key management personnel compensation comprised the following:

	Three-month periods ended March 31			
	2016		2015	
	CNY	TWD	CNY	TWD
Short-term employee benefits	\$ 2,460	12,413	2,374	11,986
Post-employment benefits	<u>21</u>	<u>106</u>	<u>19</u>	<u>96</u>
	<u>\$ 2,481</u>	<u>12,519</u>	<u>2,393</u>	<u>12,082</u>

(8) Pledged assets: Note.

(9) Commitments and contingencies

(a) Capital expenditure

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Contact signed	\$ 1,770	8,800	5,409	27,018	7,246	36,549
Contract approved yet not been signed	<u>57,789</u>	<u>287,327</u>	<u>4,923</u>	<u>24,590</u>	<u>4,260</u>	<u>21,487</u>
	<u>\$ 59,559</u>	<u>296,127</u>	<u>10,332</u>	<u>51,608</u>	<u>11,506</u>	<u>58,036</u>

(b) Operating lease commitments

As of March 31, 2016, December 31 and March 31, 2015, the Group's future minimum lease payments under the non-cancellable operating leases are as follows:

	March 31, 2016		December 31, 2015		March 31, 2015	
	CNY	TWD	CNY	TWD	CNY	TWD
Not later than 1 year	\$ 4,931	24,517	4,386	21,908	4,007	20,211
Not later than 1 year and not later than 2 years	800	3,978	662	3,307	1,589	8,015
Later than 2 years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,534</u>	<u>7,737</u>
	<u>\$ 5,731</u>	<u>28,495</u>	<u>5,048</u>	<u>25,215</u>	<u>7,130</u>	<u>35,963</u>

The duration of the Group's operating lease is from 1 to 10 years. The contract can be renewed upon expiration. Lease asset does not generate any contingent expense.

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(Continued)



**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**(12) Other**

- (a) The employee benefit expenses, depreciation, depletion, and amortization categorized by function, were as follows:

By function By item	Three-month periods ended March 31, 2016					
	Operating costs		Operating expenses		Total	
	CNY	TWD	CNY	TWD	CNY	TWD
Employee benefits						
Salary	942	4,754	17,056	86,071	17,998	90,825
Labor and health insurance	105	530	1,595	8,049	1,700	8,579
Pension	170	858	2,129	10,744	2,299	11,602
Others	80	404	1,023	5,162	1,103	5,566
Depreciation	256	1,292	4,246	21,427	4,502	22,719
Amortization	57	287	744	3,755	801	4,042

By function By item	Three-month periods ended March 31, 2015					
	Operating costs		Operating expenses		Total	
	CNY	TWD	CNY	TWD	CNY	TWD
Employee benefits						
Salary	701	3,540	19,573	98,836	20,274	102,376
Labor and health insurance	108	545	1,519	7,670	1,627	8,215
Pension	151	762	2,060	10,401	2,211	11,163
Others	49	247	1,142	5,767	1,191	6,014
Depreciation	246	1,242	4,155	20,982	4,401	22,224
Amortization	54	273	587	2,964	641	3,237

- (b) Seasonality or cyclicity of interim operations

The business segment of the Group is neither seasonal nor cyclical.

(Continued)

## CHLITINA HOLDING LIMITED AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (13) Other disclosures

##### (a) Information on significant transactions

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

##### i) Loans extended to other parties:

No.	Name of Lenders	Name of borrowers	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrowers	Transaction amount of business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limitation on fund financing
													Name	Value		
0	The Company	Hong Kong Chilitina (Note 3)	Other receivable	Yes	560,000	560,000	537,490	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	846,804 (Note 1)	1,693,608 (Note 1)
0	The Company	Chilitina Shanghai (Note 3)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	846,804 (Note 1)	1,693,608 (Note 1)
0	The Company	Weishuo (Note 3)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	846,804 (Note 1)	1,693,608 (Note 1)
0	The Company	Weihu (Note 3)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	846,804 (Note 1)	1,693,608 (Note 1)
0	The Company	Hong Kong Crystal Asia International Limited (Note 3)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	846,804 (Note 1)	1,693,608 (Note 1)
0	The Company	Wuguan (Note 3)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	846,804 (Note 1)	1,693,608 (Note 1)
1	Hong Kong Chilitina	Chilitina Shanghai (Note 4)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	3,013,300 (Note 2)	3,013,300 (Note 2)
1	Hong Kong Chilitina	Weishuo (Note 4)	Other receivable	Yes	560,000	560,000	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	3,013,300 (Note 2)	3,013,300 (Note 2)
2	Chilitina Shanghai	Weihu (Note 5)	Other receivable	Yes	249,750	248,600	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	1,946,697 (Note 2)	1,946,697 (Note 2)
3	Hong Kong Crystal Asia International Limited	Weihu (Note 5)	Other receivable	Yes	24,975	24,860	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	364,840 (Note 2)	364,840 (Note 2)
3	Hong Kong Crystal Asia International Limited	Wuguan (Note 5)	Other receivable	Yes	24,975	24,860	-	Lower 10% of loan market rate	2	-	Operating capital	-	-	-	364,840 (Note 2)	364,840 (Note 2)

Note 1: The allowable aggregate amount of financing provided to others cannot exceed 40% of the Company's stockholders' equity; the maximum financing provided to an individual counterparty cannot exceed 20% of the Company's stockholders' equity.

Note 2: Based on the Company's guidelines, when the Group directly or indirectly owns 100% of the controlling power, the allowable aggregate of financing provided to others cannot exceed 40% of the Company's stockholders' equity; the maximum financing provided to an individual counterparty cannot exceed 100% of the Company's stockholders' equity.

Note 3: The shared line of credit to Hong Kong Chilitina, Chilitina Shanghai, Weishuo, Hong Kong Crystal Asia International Limited, Weihu, and Wuguan amounted to NTD560,000 thousand.

Note 4: The shared line of credit to Chilitina Shanghai and Weishuo amounted to NTD560,000 thousand.

Note 5: The shared line of credit to Weihu and Wuguan amounted to CNY5,000 thousand.

Note 6: For the purpose of lending, the numbering are classified as follows:

- (1) Business relationship is 1.
- (2) Short-term financing is 2.

##### ii) Guarantees and endorsements for other parties: None.

##### iii) Information regarding securities held at balance sheet date (Investment in subsidiaries, associates and joint ventures were excluded): None.

##### iv) Accumulated holding amount of a single security in excess of \$300 million or 20% of the paid-in capital:

Name of company	Name of security	Account name	Counterparty	Relationship with the Company	Beginning balance		Purchase		Sales				Ending balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Disposal gain	Shares	Amount
Chilitina Shanghai	Industrial and Commercial Bank of China Rui Xin money fund	Financial assets at fair value through profit or loss	-	-	-	-	200,000,000	954,400	200,000,000	955,976	954,400	1,600	-	-
Chilitina Shanghai	Southern cash Zengli money B	Financial assets at fair value through profit or loss	-	-	-	-	109,291,000	543,395	109,291,000	544,215	543,395	833	-	-
Chilitina Shanghai	CF Honey Market Fund	Financial assets at fair value through profit or loss	-	-	-	-	110,000,000	546,920	110,000,000	547,755	546,920	848	-	-
Weishuo	Industrial and Commercial Bank of China Rui Xin money fund	Financial assets at fair value through profit or loss	-	-	-	-	70,000,000	348,040	70,000,000	348,627	348,040	595	-	-
Weishuo	China Universal money fund(519888)	Financial assets at fair value through profit or loss	-	-	188,902	9	43,255,190,000	560,280	43,255,178,902	561,010	560,289	762	-	-

Note 1: Including the units of profit distribution by Mutual Fund Company.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- v) Acquisition of real estate in excess of \$300 million or 20% of the paid-in capital: None.
- vi) Disposal of real estate in excess of \$300 million or 20% of the paid-in capital: None.
- vii) Sales to and purchases from related parties in excess of \$100 million or 20% of the paid-in capital:

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details			The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks	
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance		Percentage of total accounts / notes receivable (payable)
Chlitina Shanghai	Weishuo	Subsidiary	Purchase	166,976	81	Credit period 60 days	-	-	(113,331)	(89)	Note1
Weishuo	Chlitina Shanghai	Subsidiary	(Sale)	(166,976)	(47)	Credit period 60 days	-	-	113,331	44	Note1
Weishuo	Kelti(China)Daily Product Co.,Ltd	Related parties	(Sale)	(189,290)	(53)	Credit period 60 days	-	-	140,936	55	
Chlitina Intelligence Limited	Kelti(China)Daily Product Co.,Ltd	Related parties	(Sale)	(160,252)	(82)	Note 2	-	-	141,976	82	

Note 1: The transactions have been eliminated upon consolidation.

Note 2: The collection term for related parties was a period of two months, and was to be disbursed in two months after the payment request.

- viii) Receivables from related parties in excess of \$100 million or 20% of the paid-in capital:

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party	Turn-over rate	Past-due receivables from related party		Subsequently received amount of receivable from related party	Allowances for bad debts
					Amount	Action taken		
Weishuo	Chlitina Shanghai	Subsidiary	113,331 (Note)	5.11	-		-	-
Weishuo	Kelti(China)Daily Product Co.,Ltd	Related parties	140,936	4.32	-		-	-
Chlitina Intelligence Limited	Kelti(China)Daily Product Co.,Ltd	Related parties	141,976	2.16	-		-	-

Note: The transactions have been eliminated upon consolidation.

- ix) Financial derivative instruments transactions: None.
- x) Business relationships and significant intercompany transactions:

Unit: thousand dollars

No.	Name of the Company	Name of counter-parties	Existing relationship with the counter-parties	Transaction details			Percentage of the total consolidated revenue or total assets
				Account name	Amount	Terms of trading	
1	Weishuo	Chlitina Shanghai	3	Sales	166,976	Credit period 60 days	15.14 %
1	Weishuo	Hong Kong Chlitina	2	Purchases	24,679	Credit period 60 days	2.24 %
1	Weishuo	Chlitina Shanghai	3	Accounts receivable	113,331	Credit period 60 days	1.86 %
2	Chlitina Shanghai	Wuguan	3	Sales	19,426	Credit period 60 days	1.76 %
3	Hong Kong Chlitina	Chlitina Marketing Taiwan Branch	3	Purchases	23,721	Credit period 60 days	2.15 %
3	Chlitina Intelligence Limited	Chlitina Shanghai	3	Sales	36,043	In accordance with mutual agreements	3.27 %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

Note 2: The numbering below represents the relationships on the business transactions with counterparties:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.
- (3) 3 represents sidestream transactions.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
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(b) Information on investees:

The following is the information on investees for the the three months ended March 31, 2016:

Name of the investor	Name of investee	Location	Major operations	Initial investment (Amount)		Ending balance			Net income of investee	Investment income (losses)	Notes
				March 31, 2016	December 31, 2015	Shares	Ratio of shares	Book value			
				Unit: thousand dollars							
Chilitina Holding Limited	Chilitina Group Limited	British Virgin IS.	Investing	988,328	650,383	3,206,707,348	100	4,366,430	351,769	351,769	Note
Chilitina Group Limited	Chilitina Intelligence Limited	British Virgin IS.	Investing	-	-	1	100	658,765	159,708	159,708	"
"	Chilitina International Limited	British Virgin IS.	Investing	511,274	511,274	17,000,001	100	3,243,310	195,245	195,245	"
"	W-Amber International Limited	British Virgin IS.	Investing	377,464	136,074	12,000,000	100	367,789	(3,159)	(3,159)	"
Chilitina International Limited	Chilitina France EURL	France	Research and development center	188	188	500	100	-	-	-	"
"	Hong Kong Chilitina	Hong Kong	Investing and trading of skincare products	245,947	245,947	62,150,001	100	3,013,300	211,752	211,752	"
"	Chilitina Marketing Limited	British Virgin IS.	Investing, trading of skincare products and research and development	320,781	320,781	10,695,997	100	166,925	(17,698)	(17,698)	"
W-Amber International Limited	W-Amber Marketing Limited	British Virgin IS.	Investing	382,863	137,808	12,000,000	100	367,530	(3,134)	(3,134)	"
W-Amber Marketing Limited	Hong Kong Crystal Asia International Limited	Hong Kong	Investing	387,279	147,068	92,800,000	100	364,840	(3,109)	(3,109)	"

Note: The transactions have been eliminated upon consolidation.

(c) Information on investment in Mainland China:

i) Information on investment in Mainland China:

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2016	Investment flow during current period		Cumulative investment (amount) from Taiwan as of March 31, 2016	Net income on investee	Direct / indirect investment holding percentage	Investment income (loss) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount						
					Unit: thousand dollars							
Chilitina Shanghai	Dealer of skincare products and wealth food	255,923	(3)	-	-	-	-	122,113	100 %	122,113 (1)	1,946,697	-
Weishuo	Production and trading of skincare products	64,207	(3)	-	-	-	-	84,457	100 %	84,457 (1)	1,032,242	-
Wuguan	Dealer of wealth products and wealth food	64,193	(3)	-	-	-	-	(4,638)	100 %	(4,638) (2)	(6,687)	-
Weihu	Investing, dealer of skincare products and wealth food	259,223	(3)	-	-	-	-	1,383	100 %	1,383 (2)	250,902	-
Yujia	Service in medical and beauty treatment	203,680	(3)	-	-	-	-	(2,231)	49 %	(1,090) (2)	77,752	-

Note 1: The method of investment is divided into the following four categories

- (1) Remittance from third region companies to invest in Mainland China.
- (2) Through the establishment of third region companies then investing in Mainland China.
- (3) Through transferring the investment to third region existing companies then investing in Mainland China.
- (4) Other methods; EX: delegated investments.

Note 2: Amounts of investment income (loss) were recognized based on:

- (1) The financial statements reviewed by an international accounting firm that has a cooperative relationship with accounting firms of the Republic of China.
- (2) The financial statements reviewed by the auditors of the parent company.

ii) Limitation on investment in Mainland China:

Aggregate investment amount remitted from Taiwan to Mainland China at the end of the period	Approved investment (amount) by the Ministry of Economic Affairs Investment Commission	Limitation on investment in Mainland China in accordance with the regulations of Ministry of the Economic Affairs Investment Commission
-	-	- (Note)

Note: For foreign issuers listed on TWSE investments in China need not be limited in accordance with the Investment Commission, MOEA.

iii) Significant transactions with investees in Mainland China:

Please refer to note 13(a) 10.

(Continued)

**CHLITINA HOLDING LIMITED AND SUBSIDIARIES**  
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**(14) Segment information**

The Group is engaged in the manufacturing, distributing, and business operations of beauty products under the brand of Chlitina.

The Group uses the following channels to endorse their products:

- (a) Via direct marketing to its customers
- (b) Through direct distribution of merchandise to its skin-care-service centers, wherein, the benchmark of its net profits, required quota, and total assets for the three months ended March 31, 2016 and 2015 are below 10% of all the sales channels combined.

Furthermore, the management believes that the second channel mentioned above should not be classified as a separate segment in the financial statements due to insufficiency in value, which thereupon, cannot be used as a reference. Hence, the information on assets, liabilities, and capital expenditures cannot be disclosed.

**(15) Total difference illustration between IFRS and the IFRS approved by Financial Supervisory Commission R.O.C**

The differences between the IFRS and the IFRS approved by the FSC (ROC) had no material impact on the Group's consolidated balance sheet as of March 31, 2016 and 2015, as well as the consolidated income statement for the three months periods ended March 31, 2016 and 2015.

v. **The most recent CPA reviewed and certified individual financial statement: None.**

vi. **If Company and its affiliates encounter financial hardship in the most recent fiscal year up to the publication of this prospectus, explain the effect on company's financial position: None**

## VII. Review and Risk Items of Financial Status, Financial Performance

### i. Financial Status

Unit: NTD 1,000

Item	Year	2014	2015	Difference		Change Analysis
				Amount	%	
Current assets		2,994,416	4,735,959	1,741,543	58	1
Real estate, factory building, and equipment		1,148,643	1,066,537	(82,106)	(7)	-
Other assets		256,297	172,357	(83,940)	(33)	2
Total assets		4,399,356	5,974,853	1,575,497	36	1
Current liabilities		1,061,804	1,167,968	106,164	10	-
Non-current liabilities		7,969	860,156	852,187	10,694	3
Total liabilities		1,069,773	2,028,124	958,351	90	3
Capital stock		794,924	794,924	0	0	-
Capital surplus		1,419,463	1,456,484	37,021	3	-
Retained earnings		987,689	1,598,085	610,396	62	4
Other Equity		127,507	97,236	(30,271)	(24)	5
Total Shareholder's Equity		3,329,583	3,946,729	617,146	19	4

Change increase (decrease) analysis (for the changes more than 10% and the differential amount reached 1% of total assets for the current year):

1. Current assets increase: Operating revenue increased leading to the increases of cash, cash equivalents, and accounts receivable. Moreover, the issuance of unsecured convertible bond also increased the amount of cash and cash equivalents.
2. Other assets decrease: Part of the SAP software was sold in 2015, leading to the decrease of intangible assets balance.
3. Non-current liability increase: The issuance of first Taiwan domestic unsecured convertible bond in

2015 increased the balance of payable corporate bonds.

4. Reserved surplus increase: The main cause is the increase of annual profit in 2015.

5. Other equity decrease: The main cause is the foreign exchange difference in the financial statement of foreign operation.

Future response plan:

Our company will continue to ensure justifiability and accuracy of financial indexes. Based on the long-term development plan, our company adjusts short-term strategy as situation changes.

## ii. Financial Performance

### (1) Comparative Analysis of the Operating Result

Unit: NTD 1,000

Item	Year	2014	2015	Amount of increasing (decreasing)	Change ratio (%)	Change Analysis
Operating revenue		3,071,369	4,394,264	1,322,895	43	1
Operating cost		591,535	1,055,728	464,193	78	2
Gross margin		2,479,834	3,338,536	858,702	35	3
Operating profit or loss		877,892	1,371,183	493,291	56	4
Non-operating revenue & expense		119,389	70,466	(48,923)	(41)	5
Pre-tax net profit		997,281	1,441,649	444,368	45	6
Pre-tax net profit of continuing operations		997,281	1,441,649	444,368	45	-
Net profit (loss) for the period		755,837	1,167,087	411,250	54	6
Other comprehensive profit or loss current period (Net after tax)		76,529	(30,516)	(107,045)	(140)	7
Total comprehensive profit or loss current period		832,366	1,136,571	304,205	37	8
Net profit attributable to owners of the parent		755,837	1,167,087	411,250	54	-
Net profit attributable to non-controlling equity		-	-	-	-	-
Comprehensive profit or loss attributable to owners of the parent		832,366	1,136,571	304,205	37	-
Comprehensive profit or loss attributable to non-controlling equity		-	-	-	-	-

Change increase (decrease) analysis (for the changes more than 10% and the differential amount reached 1% of total assets for the current year):

1. Operating revenue increase: In 2015, our company continued to develop multi sales channels to promote differentiated products. With our company's highly effective sales method, the operating revenue increased.
2. Operating cost increase: The operating cost increased to accommodate the operating revenue increase.
3. Gross margin increase: The gross margin increased to accommodate the operating revenue increase. The margin rate decreased was caused by lower margin rates of new products and sales channels in 2015.
4. Operating business profits or losses increase: Operating business profits or losses increased to accommodate the operating revenue increase.
5. Non-operating revenue and expense decrease: In 2014, the unplayable aging payment and equipment deposit are high, resulting high other income. No such incidences occurred in 2015.
6. Pre-tax net profit and this period's net profit increases: The main causes are gross margin increase and operating business profits or losses increase.
7. Other comprehensive income decrease for this period: In 2015, the main cause is the foreign exchange difference in the financial report of foreign operation.
8. Total comprehensive income increase in this period: the main cause is the increase of after-tax net profit in this period.

## (2) Expected Sales Volume for the Coming Year and Its Basis

The Company sets its annual sales target by taking the industrial environment into consideration and based on past operating performance. As the Chinese cosmetics consumer market is very large, the growth rate of cosmetics industry chains is still extremely high, and the Company's market expansion has been successful. It is expected that sales this year will grow further over last year's. As a result, the company's financial business situation will see an increase.

## (3) The possible influence on the Company's future financial business, and the countermeasures to be taken

The industry that the Company belongs to is still considered to be in the growth stage, and will continue to deepen the brand essence of "Women, Love Bravely" in the future. Increase brand awareness through various media promotions; change the status depending on market needs; expand market share; increase company profitability. Future sales should continue to grow, and the financial status is good.

### iii. Cash Flow

#### (1) Analysis for the last year's (2015) cash flows change

Unit: NTD 1,000

Item \ Year	2014	2015	Change of Increase (decrease)	
			Amount	%
Net cash flow of operating activities	823,911	549,758	(274,153)	(33)
Net cash flow of investing activities	(215,944)	121,223	337,167	(156)



Net cash flow of financial activities	(945,936)	333,482	1,279,418	(135)
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(1) Net cash flow from operating activities: The net cash flow reduced was caused by the account receivable balance increase and more frequent purchase activities in 2015.

(2) Net cash flow from investment activities: In 2014, our company invested by equity method and SAP software, resulting in net cash outflow. The net cash inflow in 2015 was from the interest income from the investment products.

(3) Net cash flow from financial activities: Main cash outflow was the cash dividend distribution. Main cash inflow was from the issuance of unsecured convertible company bonds.

(2) Improvement plan for deficient liquidity:

The 2015 net cash flow from operating activities is positive. The amount was sufficient for operation. No insufficient liquidity problem.

(3) Analysis of cash liquidity for the coming year (2016)

Unit: NTD 1,000

Beginning cash balance	Expected annual net cash flow from operating activities	Expected annual net cash outflow from investing & financial activities	cash surplus (deficiency) amount	Countermeasures for cash deficiency	
				Investment plan	Finance plan
3,396,435	1,364,959	(1,083,395)	3,677,998	-	-

1. Analysis of current year's (coming year) changes in cash flows

(1) Operating activities: Net cash inflow is expected due to continuing operating revenue increases in 2016.

(2) Investment activities: Net cash outflow is expected due to capital expenditure increase.

(3) Financial activities: Net cash outflow is expected due to cash dividend distribution.

2. Countermeasures for expected cash deficiency and liquidity analysis: not applicable

#### iv. Effects of Key Capital Expenses on Finances and Business

(1) Major capital expenditure and usage: None.

(2) Potential benefit: Omitted.

#### v. Most recent year re-investment policy, the main reasons for its profit or loss, improvement plans and the coming year investment plan

1. Re-investment policies

Targets of the company's reinvestment are mainly in this industry, and we are not engaged in the investment of non-related industries. The Company's management of reinvestment business, apart from being in accordance with internal control system loop provisions, is also in accordance with the

'Management Measures for Stakeholders' Transactions' and 'Measures for the Supervision and Management of Subsidiaries,' formulated by the Company, and takes into consideration the actual operating conditions of each reinvested company's local legal provisions, assisting each reinvested company to establish an appropriate internal control system.

## 2. Main reasons of last year re-investment profit or loss

Unit: NTD 1,000; Dec. 31, 2015

Re-investment enterprise	Area	Main scope	Original invested Amount	Cause of the profit or loss	Improvement plan	Future other investment plans
Chlitina Group Limited	British Virgin IS.	Investment holdings	650,383	profit of holding company from the subsidiary	None	None
Chlitina Intelligence Limited	British Virgin IS.	Company holding Intellectual property right	-	charges of trademark rights	None	None
Chlitina International Limited	British Virgin IS.	Investment holdings	511,274	profit of holding company from the subsidiary	None	None
W-Amber International Limited (Changed name from Crystal Asia International Limited)	British Virgin IS.	Investment holdings	136,074	loss of holding company from the subsidiary	Enjoin subsidiary to improve operation for higher profits	None
Chlitina France EURL	French	R&D Center	188	R&D of products	None	None
Hong Kong Chlitina International Limited	Hong Kong	investment holdings, skin care product sales	245,947	sales of own brand products and invested profit on subsidiaries	None	None
Chlitina Marketing Limited	British Virgin IS.	investment holdings, skin care product sales, and health food products and R&D	320,781	Operating didn't reach scale economies	further promote Taiwan market	None

W-Amber Marketing Limited (Changed name from Crystal Asia Marketing Limited)	British Virgin IS.	Investment holdings	137,808	loss of holding company from the subsidiary	enjoin subsidiary to improve operation for higher profits	None
Hong Kong Crystal Asia International Limited	Hong Kong	Investment holdings	147,068	loss of holding company from the subsidiary	enjoin subsidiary to improve operation for higher profits	None
Chlitina (Shanghai) Trade Limited	Mainland China	Sales of skin care products, and health food products	255,923	sales of own brand and other brands and franchise operation and management	None	None
Weishuo (Shanghai) Daily Product Limited	Mainland China	Product and sales of skin care products	64,207	Manufacturing and sales of own brand products	None	None
Wuguan (Shanghai) Trade Limited	Mainland China	Sales of skin care products, and health food products	6,260	Operating didn't reach scale economies	Improving company's business promotion	None
Weihu (Shanghai) Trade Limited	Mainland China	investment holdings, Sales of skin care products, and health food products	98,297	No actual distribution yet. The losses are from the investee company, which was still under development.	Improving the management of the investee company to better operation for higher profits.	None

### 3. Next year investment plan

In addition to actively expanding cosmetics chain franchise stores, in recent years the Company has also been working on the expansion of beauty-related businesses, such as medical cosmetics.

In future, the company will examine market demand and the operational needs of its subsidiaries, and promote diverse outlets and store expansion projects, with the intention of further cultivating the market, improving brand positioning, and enhancing the competitive advantage of the Group as a whole, expanding sales channels, and expanding the company's revenue scale and profitability, to create greater value for shareholders. With respect to relevant investment plans, the Company will carry out investment assessment and post-approval decision procedures in accordance with regulations.

**vi. Risk Analysis and Assessment Matters for the Most Recent Year and Up to the Annual Report's Date of Publication:**

1. In the last fiscal year, the Company's single overseas operating bases or subsidiaries which meet one of the important subsidiary criteria of Article Two, Paragraph One, Clause 2 of CPA audit financial statements, should supplement the content of the overseas operational base or subsidiaries risk considerations descriptions:

For subsidiaries of the Company which fit the previously stated recognized standards of "important operational bases or subsidiaries" including the Chlitina Group Limited, Chlitina International Limited, Chlitina Intelligence Limited, Hong Kong Chlitina International Limited, Chlitina Marketing Limited, Chlitina (Shanghai) Trade Limited and Weishuo (Shanghai) Daily Product Limited, risk issues arising from such matters as changes in the local macroeconomics, or politico-economic environment, exchange controls, tax and related laws and regulations, and whether or not there is recognition of the validity of ROC civil court case judgments, as well as other risk issues and response measures, please give details below.

2. Foreign issuing companies should supplement and clearly narrate such risk issues as changes in the local macroeconomics, or politico-economic environment, exchange controls, tax and related laws and regulations, and whether or not there is recognition of the validity of ROC civil court case judgments, and other risk issues in the foreign issuing company's country of registration and country of principal operations, and provide description of the measures to be taken in response:

(1) Country of Registration: British Cayman Islands

A. Changes in the macroeconomics or Politico-economic Environment

The Cayman Islands are a British overseas territory in the West Indies, located in the Caribbean Sea approximately 268 kilometers north-west of Jamaica, and 640 kilometers south of Miami. They consist of three main islands, and are a British Overseas Territory. The capital city and commercial center is George Town. Financial services are the Cayman Island's main source of income, and the territory has now become the world's fifth largest financial center after New York, London, Tokyo, and Hong Kong, with a large number of legal, accounting and other professional services organizations providing swift and convenient services.

The types of locally registered companies can be divided into five categories: Ordinary Companies, Ordinary No-Resident Companies, Exempted Companies, Exempted Limited Duration Companies and Foreign Companies. Of these, as exempted companies cannot do business locally, they are set up by foreign enterprises and individuals to carry out financial planning. In recent years, at the same time as vigorously developing the finance, insurance and marine businesses, the Cayman government has also actively improved its good reputation for offshore financial operations and signed a 'Mutual Legal

Assistance Treaty' with the United States and the United Kingdom, in order to jointly prevent international criminal organizations using the Cayman's financial system and carrying out illegal trading.

In summary, the Company is only a Cayman Islands holding company; its registered type is an exempted company. It carries out no actual business operations or production locally, and the British Cayman Islands have for a long time enjoyed a state of political stability. With respect to changes in the Macro economics and politico-economic environment, these would have no significant impact on the Company's overall operations.

#### B. Foreign Exchange Controls, Tax Risks and Relevant Laws

The British Cayman Islands have no foreign exchange restrictions, and apart from an annual license fee for exempted companies, there is currently no corporate income tax or VAT. With respect to legal stipulations, the main stipulations for exempted companies of the Cayman Islands are as follows:

- (A) Exempted companies shall not conduct any business in the territory of the Cayman Islands, unless this business is of a direct help to the company's foreign operations.
- (B) Without the approval of the Financial Secretary of the Cayman Islands, exempted companies may not hold land within the territory of the Cayman Islands. Exempted companies which are not listed on the Cayman Islands Stock Exchange may also not issue invitation to the public in the Cayman Islands to subscribe for the company's shares or debentures.
- (C) The Company Act of the Cayman Islands does not provide that companies must hold annual shareholders' meetings. A company should convene general meetings of shareholders and board meetings in accordance with the provisions of the company's Articles of Incorporation, and the location for these is not limited to the Cayman Islands. However, at a shareholders meeting on June 19, 2014, the Company adopted a resolution by the shareholders on the Company's Articles of Incorporation (hereinafter referred to as 'Articles of Incorporation of Listed Companies'), which provides that the Company shall hold a shareholders' meeting within six months of the end of each fiscal year or within the period approved of by the stock exchange, and the Articles of Incorporation of Listed Companies also provides that during the stock listing, all shareholders' meetings of the Company shall be held within the territory of the Republic of China.
- (D) The issuance of new shares needs to be approved by the board of directors. The Articles of Incorporation of the Company provides that to issue new common shares, consent must be obtained

at a board of directors meeting attended by a majority of the directors and with more than two thirds of directors present. The Company may not issue any shares with payment for shares outstanding or issue shares with only part of the payments made.

- (E) Exempted companies do not need to submit or declare details of their shareholders to the Cayman Islands company registry. However the Company's Articles of Incorporation provides that the board of directors shall store a shareholders' registry document in appropriate premises either inside or outside the territory of the Cayman Islands.
- (F) Exempted companies do not have to be open to public inspection.
- (G) Exempted companies can apply to the government of the Cayman Islands for a letter of undertaking to not be taxed as an exempted company. The letter of undertaking obtained from the first application is valid for 20 years, and application can be made for renewal before maturity is reached.
- (H) Exempted companies can apply for deregistration, and registration status can also be transferred to another country.
- (I) Exempted companies can register as exempted limited duration companies. A limited duration company needs to have at least two shareholders, and the maximum period of validity is up to 30 years.
- (J) As Cayman Islands law with regard to safeguarding the equity of minority shareholders differs with other areas of jurisdiction such as the Republic of China, the Company has amended the stipulated limitations within the Company's Articles of Incorporation in accordance with the ROC Securities and Exchange Act, Company Act and other laws and regulations, as well as the competent authority's requirements, in order to safeguard the shareholders' equity of Taiwan investors.
- (K) Without obtaining special permission, words such as bank, trust, mutual fund, insurance, royal, imperial, empire, assurance, building society, or reinsurance, may not appear in the company name, and registration documents must be written in English.

In summary, as the British Cayman Islands adopt an open policy on foreign exchange, there are no relevant regulatory restrictions; hence there is no significant effect on the Company's use of funds. Also local government grants exempted companies preferential policies on tax. In the relevant laws and regulations, apart from the above-mentioned limitations on business operations within the territory,

extending invitations to citizens of the islands to subscribe for shares or debentures, as well as the acquisition of land and the limitations on company name, exempted companies have no significant operational restrictions. The Company is only registered locally as a holding company; it does not itself have any operational activities or production locally. Thus, in terms of tax and related laws, the Cayman Islands where the Company filed and completed registration does not have a significant impact on the overall operational circumstances of the Company.

### C. Determining Whether to Recognize the Validity of ROC Civil Court Judgments

#### (A) The risk of litigation request:

The company is incorporated in the Cayman Islands with exemption, and not recognized by the Ministry of Economic Affairs in accordance with the provisions of the Company Act in Taiwan; but the company's Articles of Incorporation provide that for the protection of some of the company shareholders' rights and interests, the company may appoint the Taiwan Taipei District Court as the court of first instance for jurisdiction, and the company has appointed litigation and non-litigation agents in the territory of the Republic of China in accordance with the provisions of the Taiwan Stock Exchange. However, if investors file a law suit against the company or the legal representative in a court in the Republic of China, the court may still determine the existence of the jurisdiction and the delivery method based on the nature of the case and the situation, and the court may also require investors to explain the foreign laws involved in the case. Therefore, not all types of cases can surely obtain substantive decisions from a court in the Republic of China.

#### (B) The risk of decision recognition and enforcement:

The law of the Cayman Islands does not expressly stipulate that a decision made in a civil court of the Republic of China (hereinafter referred to as "ROC court decision") can be enforced in the Cayman Islands, but according to the common law of the Republic of China, if a ROC court decision meets the following requirements, then the Cayman Islands court shall acknowledge the effectiveness of the decision and enforce it: (1) the foreign court which makes the decision has the jurisdiction; (2) the decision clearly states that the obligor shall bear the payment obligation of the liquidated sum specified in the decision; (3) the decision is final; (4) there is no taxes, fines or penalties involved; (5) the acquisition method, recognition and enforcement of the decision do not violate the principle of fairness and justice or public policies of the Cayman Islands.

If the Cayman Islands court does not acknowledge the ROC court decision, then the decision cannot be enforced even if investors obtain a decision in our country. Therefore investors shall understand the legal risk of buying securities issued by foreign issuers.

### D. Whether our country can extradite the accused for trial

The securities supervisory authority of the Cayman Islands where the company is registered already signed the "International Securities Management Organizations Multilateral Memorandum", and the ROC Financial Supervisory Commission of the Executive Yuan may base on the Memorandum request the securities supervisory authority of the Cayman Islands to provide relevant information or files, including but not limited to the current record which is sufficient to rebuild all securities and derivatives transactions (including bank and trading account movement records concerning all fund and asset transfers). However, there is no relevant provision of the Memorandum regarding extradition, and Taiwan does not have the right to request the Cayman Islands to extradite the accused back to Taiwan pursuant to the Memorandum. Furthermore, there is no mutual assistance agreement in criminal justice signed between Taiwan and the Cayman Islands. In summary, Taiwan may face the risk of not being able to request the Cayman Islands to extradite the accused back to Taiwan for a trial.

E. The risk of law applicability due to the law difference between the Republic of China and the Cayman Islands

- (A) The company is established pursuant to the law of the Cayman Islands, and for the application for listing on the Taiwan Stock Exchange Corporation, the company has amend its Articles of Incorporation in compliance with the requirements of the relevant laws and regulations of the Republic of China to protect the equity of shareholders. For matters not provided in the Articles of Incorporation, the company shall handle them in accordance with relevant laws of the Cayman Islands and the ROC laws applicable to foreign issuers. As there are many differences between the laws and regulations of the Cayman Islands and the Republic of China on company operation requirements, investors can not apply the legal rights protection for investment in a Taiwanese company on the investment in a Cayman company, and should firmly understand and seek expert advice when necessary whether the rights and interests of shareholders can be protected in an investment in a Cayman company.
- (B) The difference between the decrees and the securities exchange regimes of the Cayman Islands and the Republic of China may still cause conflicts in law applicability and interpretation. As the conflicts in law applicability and interpretation need to be resolved in court, investors need to be reminded that if they need to request a Cayman Islands court to enforce a Taiwan court decision, or file a law suit or exercise their rights in a Cayman Islands court, the Cayman Islands court will not necessarily recognize the decrees and trading practices in Taiwan (including but not limited to the share transfer



method and shareholders' record), and this may cause a risk in the exercise of rights on a foreign company.

F. Investors should carefully assess whether their financial capacity and economic situation is appropriate for investment before trading foreign listed, OTC and Emerging Market securities, with particular attention to the following matters:

- (A) The company is registered in the Cayman Islands and subject to local laws and regulations. The relevant provisions of its corporate governance, accounting standards and taxation system may be different from the requirements of our country, and the listing standards, review methods, information disclosure and protection of shareholders' equity and interests are different from those for a domestic enterprise. Investors should be aware of this feature and the potential investment risks.
- (B) The exercise and protection of shareholders' rights and interests in the Company Act of the place where the company is registered are different from the laws and regulations of our country. Investors should carefully read the company's annual report and Articles of Incorporation, understand matters relating to the capital increase and reduction procedures, disposal of the company's shares after acquisition, restrictions on the transfer of shares, notice period of a shareholders meeting, attending shareholders meetings and exercising the voting right, dividend payout ratio and procedures, director election and dismissal method, rights of the board of directors, functions and powers of independent directors and the audit committee, directors' and executives' remuneration, directors' and managerial officers' right of remuneration claim on the company and other important matters relating to corporate governance and shareholders' interests and interests which are applicable to the company. If necessary, investors should consult lawyers, CPAs and other professionals with local licenses.
- (C) Investors should understand the characteristics and risks of the company before investment, including: the liquidity risk of the country's market, the company's business and financial risks, as well as the political, economic, social change, industry cycle change and decree risks in the place of registration and main operations.
- (D) Not all foreign securities investment risks and factors affecting market conditions can be elaborated. Before dealing investors should read the annual report and public announcements in detail, be discerning about other possible factors that may affect investment decisions, and firmly perform financial regulatory planning and risk assessment so as to avoid unbearable losses from transactions.

(2) Main country/place of operations: British Virgin Islands

Chlitina Group Limited, Chlitina International Limited, Chlitina intelligence Limited and Chlitina Marketing Limited, the main subsidiaries of the company which are located in the main country of operations, are all established in accordance with the British Virgin Islands law, and the related risks are explained as follows:

A. Macroeconomics and political and economic environment change

The British Virgin Islands is a British overseas territory, located in the Caribbean region in the east of Puerto Rico, and is collectively referred to as the Virgin Islands with the adjacent American Virgin Islands and Spanish Virgin Islands. At present, the British Virgin Islands is a British overseas territory with autonomous management, an independent legislative council and political stability, and tourism and financial services as the main source of income. Since 1959, the common currency is US dollar, and the local official language is English.

B. Foreign exchange control, law and tax risks

The British Virgin Islands has no foreign exchange control. For the overseas income of a business company registered here, other than the annual license tax payment to the local government and the expenses for the registered address and registered agent, there is no corporate tax, capital gains tax, property tax or other business tax for a business company. A British Virgin Islands business company has a special exemption from the payment of income tax. The "Income Tax Law" also exempts business companies from the relevant provisions of the "Stamp Tax Law" and "Registration and Record Law" on all documents or contracts involved in the company's operations, including the transfer of all properties and transactions involving the company's securities. People living and working in the British Virgin Islands only pay a very low salary tax. On laws and regulations, in accordance with the provisions of the BVI Business Companies Act 2004, a company may not announce or pay a dividend unless the directors are of the opinion that after the dividend payment: (a) the company can pay off debts in due course, and (b) the company's assets are still greater than its liabilities.

C. Whether a civil decision of the court of the Republic of China is recognized

The law of the British Virgin Islands does not expressly state that a civil decision of the court of the Republic of China (hereinafter referred to as the "ROC court decision") may be executed in the British Virgin Islands. If a final litigation decision is obtained from a Taiwan court requesting a company to make a payment (not of the nature of multiplied damages, taxes or other similar payments, or fines or other penalties), the court of the British Virgin Islands will deem it effective and make a judgment according to the decision. However: (a) the Taiwan court shall have appropriate jurisdiction over the parties involved in the decision; (b) the Taiwan court does not violate the principle of natural justice of the British Virgin

Islands; (c) the decision is not obtained by fraud; (d) execution of the decision will not violate the British Virgin Islands' public policies; (e) the British Virgin Islands court does not receive any new evidence associated with this litigation which can be adopted before the verdict, and (f) due process has been complied with under the laws of the British Virgin islands.

(3) Main country/place of operations: Hong Kong

Hong Kong Chlitina International Limited, the main subsidiary of the company which is located in the main place of operations, has a main business in investment holding and the sale of skin care products. The related risks are described as follows:

A. Macroeconomics and political and economic environment changes

Hong Kong is located on the South China Sea coast, in the east of the Pearl River Estuary, north of Shenzhen of Guangdong Province, south of Wanshan islands, and with Macau and Zhuhai of Guangdong in its west. Hong Kong consists of the Hong Kong Island, Kowloon and the New Territory, with a total of 263 islands. Hong Kong and the United Kingdom signed the Sino British Joint Declaration in 1984 and the sovereignty of Hong Kong was transferred and became a special administrative region on July 1, 1997. Hong Kong implements the "Hong Kong Basic Law" which prescribes that Hong Kong does not implement socialism, and maintains the original capitalism and the way of life for fifty years. Other than national defense and foreign affairs, Hong Kong enjoys a high degree of autonomy in all other matters and the right to participate in international affairs, which is known as "Hong Kong people manage Hong Kong, with a high degree of autonomy". It now has an important role in the Asia Pacific region, and is a modern international metropolitan mainly in industry and commerce, and is known as one of the "Asia's four little tigers" and "Nylonkong". Hong Kong is an important international financial, service and shipping hub, and is famous for its integrity, social security, economic freedom and sound legal system.

According to the Hong Kong Company Act, a locally registered company may be set up as a private limited company, an unlimited company or a limited guarantee company. A company must have an English name, or the name can be shown in both Chinese and English. There is not a floor for the authorized capital amount, and the amount of capital is usually HK\$10,000. A Hong Kong company must appoint a company secretary who is a local citizen, and must have at least one director (either an individual or a corporate). A Hong Kong company must apply for a business registration certificate and register with the tax bureau. Within 42 days from the anniversary of its establishment a company must submit its annual report to the registrar for recordation, and every year it must be audited by a qualified independent auditor (i.e. CPA). A company which may have to pay income tax will be issued a tax reporting form, which needs to be filled out after the end of the year and submitted to the government

within a month after the tax reporting form is issued, together with the audited accounts (Hong Kong tax regulations require that a newly set up Hong Kong company shall confirm whether it is required to fill out a tax reporting form and submit audited accounts after 18 months of its establishment).

#### B. Foreign exchange control, tax and related law risks

Hong Kong has no foreign exchange restrictions and the tax system in Hong Kong is "region" or "tax source" based. Generally, taxes are levied only on the income or profits received in the territory of Hong Kong, and overseas income is not taxed. The major taxes include:

- ① Salary tax: The taxpayers are those who work in Hong Kong and earn compensation. The government offers various tax deductions for salary taxpayers, and the tax is levied based on a progressive tax rate scheme after the deductions.
- ② Profit tax: For taxpayers who make business profits in Hong Kong.
- ③ Property tax: For taxpayers who hold properties and rent them for a profit in Hong Kong. There is no property tax, but a property transaction profit tax, land tax and land rental tax.
- ④ Stamp duty: The tax levied by the Hong Kong government on any real estate transfer, real estate lease and stock transfer.
- ⑤ Commodity tax: Hong Kong generally does not levy any tax on commodities, except alcohol, tobacco, hydrocarbon and methanol.

#### C. Whether a civil decision of a court of the Republic of China is recognized

There is no reciprocal measure of execution between the court in Hong Kong and the court in the Republic of China, so a favorable court decision in the Republic of China can only be recognized and enforced in accordance with the provisions of the Common Law in Hong Kong. However, the Hong Kong court will decide whether to recognize and enforce a ROC court decision according to the specific circumstances of each decision, and consider whether the decision is in line with a number of conditions, including but not limited to:

- ① Whether the right the decision of the case covers belongs to a private right;
- ② Whether an acknowledgement of the decision meets the demand of the interests of justice, common sense and legal order;
- ③ Whether an acknowledgement of the decision will not harm sovereign interests or violate public policies;
- ④ Whether the decision is in line with the Common Law principles, including but not limited to: (i) whether the decision is effective and final; (ii) whether the decision related parties (or interested parties) are the same as the parties (or interested parties) at the Hong Kong court; (iii) whether the case can be

resolved if the decision is reviewed at the Hong Kong court.

(4) Main country/place of operations: Mainland China

Chlitina (Shanghai) Trade Limited and Weishuo (Shanghai) Daily Product Limited are the main subsidiaries of the company which are located in the main country of operations, and both are established in accordance with the Chinese law. The related risks are explained as follows:

A. Macroeconomics and political and economic environment changes

According to the data of China's National Bureau of Statistics on Feb. 29, 2016, in 2012 the GDP was CNY53 trillion 412.3 billion, representing a growth of 7.7% from 2011. In 2013, the GDP was CNY58 trillion 801.9 billion, representing a growth of 7.7% from 2012. In 2014, the GDP was CNY63 trillion 646.3 billion, representing a growth of 7.4% from 2013. In 2015, the GDP was CNY67 trillion 670.8 billion, representing a growth of 6.9% in 2014. Although the growth rate has slowed down, the economic structure is continuously improving. The data shows that Mainland China's economy has shown a "new normal state". The economic growth target of 7 to 8 percent according to Mainland China's "12th Five-Year Plan" has a perfect ending, and has laid a solid foundation for the economic and social development for the "13th Five-Year Plan". The economy is expected to remain a high-speed increase in the future. According to the data of China's National Bureau of Statistics, from 2011 to 2015 the annual retail sales growth rate of Mainland China was between 10% to 17% from 2011 to 2015, and the retail sales mount has reached CNY30 trillion (about US\$ 4.8 trillion) in 2015.

While the basic driving force for China's economic growth has not changed, the economic growth is still faced with the changes of resource and environmental conditions, labor supply and demand and the status of China's population. In the mid to long term, the key to the growth in China's economy will be more focused on the mode of development transition and the adjustment to the economic structure. Therefore, judging from Mainland China's recent economic situation, price control will be the priority of its macro-control. After the macro-control measures gradually take effect, the economic growth will slow down; but even so, the driving force for Mainland China's stable mid to long term economic development still remains.

The company's products are mainly manufactured and produced in China. In addition, the company's development strategy relies on the Mainland China market as the main operating base, and the revenue is also mainly from Mainland China. Accordingly, the financial position, operating results and prospects of the company will be affected by China's political, economic and legal development. This uncertainty may to some extent affect the company's operations and investors' investment.

There are some differences between China's economic environment and those in most developed countries, including the economic structure, the degree of government intervention, the degree of urban and rural development, the economic growth rate, the degree of capital investment, capital investment

regulations, exchange controls and local resource allocation. Before 1978, China operated under a centrally planned economic system, and all production and economic activities in the territory of China are controlled under the economic goals of the central government's five-year plan and annual plan. Since 1978, the Chinese government has opened up foreign investment and allowed the implementation of economic reforms, and gradually changes from a planned economy to a market-oriented economy. These reforms contributed to China's economic growth over the past two decades. However, there is no precedent for the reforms and economic policies taken by the Chinese government which are experimental in nature, and may result in unpredictable results and unexpected adverse effects on enterprises with significant operating activities in China, including the company.

As China's economy grows rapidly, there is an imbalance in the various geographic regions. A rapid economic growth may cause a money supply growth and accelerate inflation. If the company's product prices fail to respond to market changes with a timely adjustment, the cost will likely go up and the gross profit and sales will decline, which may adversely affect the company's business. To control inflation, the Chinese government has controlled bank credit, set upper limits on fixed-asset loans and the state-owned banks' loans. The implementation of these policies may result in future economic slowdown and may adversely affect the company's business, financial condition and operations results.

Although the legal system of China has been developing, it is still not complete. Even China has enough legal norms; there are still uncertainty and exceptions in the enforcement of the existing regulations or contracts. It may therefore be difficult to achieve a quick and fair enforcement of a decision, especially a decision of a court under another jurisdiction. The Chinese legal system is based on statute laws and their interpretations, and court precedents may also be cited for reference, but the binding force is limited. Because China's judicial system has less experience in many cases, litigation results may be uncertain. In addition, the interpretation of laws and regulations may be subject to government policies, and reflects the domestic political change. Based on the development of China's legal system, changes in the laws or regulations in the future may adversely affect the company's business, operating results, financial conditions and prospects.

## B. Foreign exchange control, tax and related law risks

### (A) Foreign exchange control

Since 1978, China's foreign exchange management system has been gradually adjusted from a highly centralized plan and management to market management. Since 1994, China has carried out the reform of its foreign exchange management system, and the market mechanism further played its role. The first change was to realize the unification of exchange rates and implement a market supply and demand based, single and managed floating exchange rate system. The second was to implement the foreign exchange settlement system of banks to gradually realize the convertibility of CNY through regular foreign

exchange applications. Finally, the interbank foreign exchange market was established to improve the exchange rate mechanism and maintain a rational and relatively stable exchange rate of CNY. The exchange rate of CNY depends on the change of Chinese politics, and international politics and the economic environment. Since July 21, 2005 China adopted a floating exchange rate policy, the CNY exchange rate was formally detached from US dollar and pegged to a basket of currencies, and the fluctuation of CNY exchange rate by a small margin is allowed. However, to retain the country's export competitiveness, the mainland government strongly suppressed the appreciation of CNY and caused the CNY exchange rate to be undervalued. International powers led by Europe and the United States continue to put pressure on the Chinese government and believe that China should adopt a more floating monetary policy, which may cause the CNY to appreciate against US dollar. The change in the CNY exchange rate against US dollar may result in an uncertainty on the cash flow, earnings performance, earnings distribution as well as financial condition. The company's functional currency is mainly CNY, and the currency used for inventory and sales is mainly CNY. Therefore, the change of CNY exchange rate against US dollar will not cause an uncertainty on the company's cash flow, earnings performance, earnings distribution and financial condition.

#### (B) Corporate income tax and value added tax

According to China's "Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprise" which was applicable before Jan. 1, 2008, for enterprises with foreign investment and foreign enterprises set up in China (hereinafter referred to as "foreign enterprises"), the income tax rates applicable are 30% enterprise income tax and 3% local income tax which are also applicable to state and local enterprises. The Chinese government provides a variety of preferential policies to foreign enterprises and companies which meet specific standards, including tax exemption, reduction of tax rates, tax returns and other policies. Under the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprise (hereinafter referred to as the "China Income Tax Law") and its detailed rules for implementation, the income tax rate of foreign enterprises set up in special economic zones or enterprises with foreign investment set up in economic and technological development zones should be reduced to 15%. For production-oriented enterprises with foreign investment which have an operating period of more than ten years, starting from the first profit-making year, they are exempt from corporate income tax in the first and the second year, and from the third to the fifth year the corporate income tax is halved (hereinafter referred to as the "two exemptions and three halves").

Also on Mar. 16, 2007, China promulgated the "People's Republic of China Enterprise Income Tax Law", and on Dec. 6, 2007 promulgated the "Implementation Rules of People's Republic of China Enterprise Income Tax Law". The new law has come into force on Jan. 1, 2008. Under the new tax law,

all enterprises (including foreign enterprises) are subject to a unified income tax rate of 25%, and certain preferential taxes, relieves and protection measures in current regulations for foreign enterprises will be canceled. Regarding the preferential corporate income tax currently enjoyed by foreign enterprises, it will gradually increase to 25% after the new enterprise income tax law is implemented for five years. However, the new tax law allows foreign enterprises in the manufacturing sector to be exempt from the new tax law after the five years and continue to enjoy tax incentives.

On VAT, units and individuals who sell goods, provide processing, repair and replacement services, or import goods in mainland China are VAT taxpayers, and the tax rate is between 0%~17%, but the tax rate is zero for export. In addition, according to China's new enterprise income tax law and its implementation rules which came into effect on Jan. 1, 2008, for enterprises which are set up outside of mainland China but the "actual management institution" is located in China, they shall be deemed "resident enterprises", and "resident enterprises" shall pay a 25% corporate income tax for the income with sources in both mainland China and overseas.

According to the new tax law, since Jan. 1, 2008, a non-resident enterprise which does not set up an institution or a place of business within the territory of China, or has an agency or a place of business but the income is not related to its agency or place of business, shall pay a 10% withholding tax for its various passive income with sources in mainland China (such as dividends) (5% for income under the tax treaty with the Hong Kong Special Administrative Region).

#### (C) Labor Contract Law

In Jan. 1, 2008, China began the implementation of the new Labor Contract Law the purpose of which is labor protection and a clear specification of the rights and interests of both employers and employees. The Labor Contract Law provides that once an enterprise hires an employee (including in the probation period), then within a month from the date of employment both parties shall sign a written labor contract. If a written labor contract is not signed for more than a month but less than a year from the date of employment, the employer shall pay double the monthly salary to the employee. If a written labor contract is not signed for more than a year from the date of employment, it is deemed that a labor contract without a fixed term is signed between the employer and the employee. After the employment relationship ends, in certain cases in conformity with the provisions of the Labor Contract Law, the employer should pay economic compensation. However, if the employer offers an equal or better condition for contract renewal but is rejected by the employee, the employer may be exempt from paying economic compensation.



The compensation shall be based on the employee's seniority, but the specific period determined by the local government before 2008 is not included. In general, for every year of service the employee is entitled to a monthly salary as compensation, and any period less than six months shall be deemed a year. An employee is entitled to compensation of half a month's salary for working less than six months. If there is not a written employment contract, but the arbitration judgment or ruling finds that in fact there is an employment relationship for more than one month but less than one year, then the employer shall pay double the monthly salary, and pay the employee compensation in accordance with the method above before the expiration and termination of the employment relationship.

The implementation of the Labor Contract Law has caused a substantial increase in the labor cost. It has clear definitions of the labor contract enactment, severance pay, mass layoff of labor, manpower dispatch and non-competition. Nevertheless, the company is not in a labor intensive industry and the staff in the Chinese market is mostly sales and management personnel, and in recent years the company has increased the salaries of many Chinese employees in response to the change of the human resource market. Besides, the company has been working toward providing employees with a good working environment and welfare in order to effectively retain competent staff. Therefore, the implementation of the Labor Contract Law on Jan. 1, 2008 has only a limited impact on the company, but in the future any law changes within the territory of China may have an impact on the operations of the company.

#### (D) The particularity of land property

There is no private ownership of land in China. Except that owned by the country by law, the land within the territory of China belongs to the collective ownership of the working people. According to the basic law enacted by the National People's Congress on the unified adjustment of urban real estate or the "People's Republic of China Urban Real Estate Management Law" (hereinafter referred to as the "Real Estate Management Law"), the main bodies of China's land ownership are specific, which include the country's and collective ownership. Land ownership correspondingly is divided into state owned land and collectively owned land, and the country may requisition collective land according to law.

According to the provisions of the "Real Estate Management Law" and the "Commodity Housing Rental Management Approach" promulgated on Dec. 1, 2010 and implemented on Feb. 1, 2011, the rental parties shall sign a written lease contract, and a registration system is implemented for rental housing. According to the relevant provisions of the "People's Republic of China Contract Law" and the Supreme People's Court's "Explanations to Some Questions Regarding the Applicability of People's Republic of China Contract Law (1)", the laws and administrative regulations require that contracts shall go through the registration formalities, but for contracts which registrations are not explicitly required in order to take

effect, the contract validity is not be affected if the party involved fails to go through the formalities of registration; the title to the subject matter of the contract and other property ownership cannot be transferred. In view of the "Real Estate Management Law", the "Commodity Housing Rental Management Approach" and other relevant laws, the administrative regulations do not require that lease contracts shall come into effect after registration, and therefore the validity of a lease without registration is not affected.

#### (E) Social insurance and housing accumulation fund

##### ① Social insurance

According to the "Provisional Regulations on Collection and Payment of Social Insurance Premiums", the types of social insurance include the basic endowment insurance, basic medical insurance, unemployment insurance, maternity insurance and industrial injury insurance, and the collection and payment scope include state-owned enterprises, urban collective enterprises, foreign-invested enterprises, urban private enterprises and other urban enterprises and their employees, and business units which implement enterprises management and their employees. Such an enterprise should, within 30 days from the date of establishment, carry its business license or registration certificate and relevant documents to the local social insurance agency to apply for a social insurance registration. After review and approval, the social insurance agency will issue a social insurance registration certificate. Provinces, autonomous regions and municipal people's governments may based on the actual local situation decide the collection and payment of industrial injury insurance and maternity insurance fees according to the applicability of the regulations on the administrative areas.

"Provisional Regulations on Collection and Payment of Social Insurance Premiums" provides that employing units should pay social insurance for their employees since Jan. 22, 1999. However, as China's social insurance system is still in a process of gradual establishment and improvement, there is a huge difference in the actual situation of various areas. Therefore, various provinces and cities formulated their own social insurance collection and payment regulations after taking into account their actual situation and in compliance with the "Provisional Regulations on Collection and Payment of Social Insurance Premiums" in order to realize the territorial management of social insurance.

The company's important subsidiaries in China, including Chlitina (Shanghai) Trade Limited and Weishuo (Shanghai) Daily Product Limited, follow Shanghai's local regulations on tax payment. Chlitina (Shanghai) Trade Limited and Weishuo (Shanghai) Daily Product Limited have received from the Shanghai Social Insurance Fund Settlement Management Center "Status of the Unit's Participation in Urban Social Insurance", and there are no arrears. From Jan. to July 2015, Chlitina (Shanghai) Trade

Limited commissioned Chienjin Network and its partners to make payments of some of its employees' social insurance premiums, and has obtained relevant information about the payments already made by Chienjin Network and its partners for the company's employees. Since August 2015 onwards, Chlitina (Shanghai) Trade Limited has started paying the relevant employees' social insurance premiums on its own.

Regarding the company's payment and deduction of various social insurance premiums for and on behalf of its employees in accordance with the relevant laws, regulations and local policies, the basis of the social insurance premiums and the rates are in line with the provisions of the relevant laws and administrative regulations, and there is no need for supplemental payments and there has been no penalties imposed. As of the certificate issuing date, Chlitina (Shanghai) Trade Limited and Weishuo (Shanghai) Commodity Co., Ltd. have no major illegal or poor record in labor and social insurance, and there had been no major labor dispute or employee strike or administrative punishment by the competent authorities of labor and social insurance.

#### ② Housing provident fund

According to the provisions of "Housing Provident Fund Management Regulations", a newly established unit shall go through the formalities for registration of housing provident fund deposit at the Housing Provident Fund Management Center within 30 days after the date of the establishment, and within 20 days of the registration carry the approval document from the Housing Provident Fund Management Center to the entrusted bank to open a housing provident fund account for employees of the unit. If the unit does not apply for registration of housing provident fund deposit or open a housing provident fund account for employees, the Housing Provident Fund Management Center shall request it for a correction before a specified deadline. If no correction is made before the deadline, a fine shall be imposed on the unit. If the unit fails to pay or does not pay the full housing provident fund amount, the Housing Provident Fund Management Center shall request it for a full payment before a specified deadline. If no payment is made before the deadline, the Housing Provident Fund Management Center may apply with the people's court for a compulsory execution.

The "Housing Provident Fund Management Regulations" has been promulgated and implemented since Apr. 3, 1999, and the provisions require that an employing unit should pay the housing provident fund for employees. However, as the housing provident fund system was still in a process of gradual establishment and improvement, various provinces and cities formulated their own housing provident fund collection and payment regulations after taking into account their actual situation and in compliance with the "Housing Provident Fund Management Regulations", in order to realize the territorial management of housing provident fund.

The company's important subsidiaries in China, including Chlitina (Shanghai) Trade Limited and Weishuo (Shanghai) Daily Product Limited, have opened housing provident fund accounts and make the provident fund payment for employees according to the law, and are not in violation of the requirements in the laws of the state and Shanghai City on the management of the housing provident fund. In addition, both of them have received from the Shanghai Provident Fund Management Center "Status of Provident Fund Payment and Deposit", which shows that the two companies have not been subject to administrative penalties of the Center since their account opening. In the meantime, from Jan. to July 2015, Chlitina (Shanghai) Trade Limited commissioned Chienjin Network and its partners to make payments of some of its employees' housing provident fund, and has obtained relevant information about the payments already made by Chienjin Network and its partners for the company's employees. From Aug. 2015 onwards, Chlitina (Shanghai) Trade Limited started paying the relevant employees' housing provident fund on its own. The company has been complying with "Housing Provident Fund Management Regulations" and "Certain Provisions on Housing Provident Fund Management in Shanghai City" for payment of employees' housing provident fund, and there is no contention or dispute with employees due to housing provident fund.

According to Mainland Chinese lawyers, after a full payment of related social insurance and housing provident fund, the commissioning of an agency by Chlitina (Shanghai) Trade Limited for payment of social insurance and housing provident fund does not damage the employees' interest in social insurance and housing provident fund. Therefore, the risk of a dispute with employees for the issue above is little. Since Aug. 2015 Chlitina (Shanghai) Trade Limited has been paying the relevant employees' housing provident fund on its own, and there is little risk for supplemental social insurance and housing provident fund payments faced by the company, a claim of compensation by employees through labor dispute arbitration/litigation, or even penalties by the local social insurance and housing provident fund management institutions. Therefore, it shall not constitute a major adverse effect on the financial status of the company's important subsidiaries in Mainland China.

#### (F) Environmental protection

The company's production base is located in mainland China, and the mainland Chinese subsidiary Weishuo is responsible for manufacturing and production. Therefore the company must comply with China's various environmental regulations. Weishuo obtained an environmental assessment report at the time of establishment, and passed the inspection and acceptance by the local environmental protection authority. As the discharge amount of sewage generated in the production process in the factory which Weishuo leases from Chlitina (China) has not yet met the regulatory standard, currently Weishuo discharges sewage through the water treatment equipment of Chlitina (China) after a physicochemical and biochemical treatment, and Chlitina (China) has obtained a drainage license. Regarding waste treatment,

Weishuo has signed a contract with a qualified waste treatment firm for a regular treatment. Although the company has endeavored to comply with applicable environmental regulations, China's central and local governments may amend environmental regulations and implement more or more stringent environmental standards and regulations. Abiding by relevant laws and regulations may generate a huge cost to the company, but the company may not be able to pass on the cost to customers. If the company fails to comply with or is alleged to violate the environmental protection laws and regulations, it may suffer fines or undertaking of other environmental responsibilities which may adversely affect the company's reputation. If the Chinese government changes the current environmental protection regulations, it may also cause the company to increase spending on environmental protection.

As of the publishing of the company's annual report, the company did not have any adverse environmental protection violation records, and will continue to comply with relevant laws and regulations of environmental protection.

(G) The company's subsidiaries in mainland China are under the supervision and jurisdiction of the Chinese government agencies, including but not limited to the commerce departments, industry and commerce departments, the foreign exchange control departments, the environmental protection departments, the safety supervision departments and the drug regulatory authorities. The governmental supervising departments above have the right to promulgate and (or) implement laws and regulations relating to the production and operation of the company's subsidiaries in mainland China. The production and operation of the company's subsidiaries in mainland China need to obtain approvals and permits from governmental supervising departments. If the company's subsidiaries in mainland China do not obtain all sorts of approvals and permits from governmental supervising departments or continue to hold them, the subsidiaries in mainland China may be penalized with fines, business termination or limited business. The occurrence of any of the above will affect the company's production and operation. The company will continue to closely observe and understand the Chinese government's policy trends and regulatory changes, and endeavor to follow them.

#### (H) Dividend distribution

Because the company is a holding company, the ability to pay dividends depends on the profits of the subsidiaries and their distributions, and the distribution method and amount determined by the board of directors. Therefore, in the future dividend distribution will depend on factors such as the operating performance, financial condition and cash requirement of the group as a whole and applicable laws and regulations. For example, according to the laws of the People's Republic of China, a subsidiary in China can only allocate and pay dividends from its net income, and the net income amount is determined based

on the retained earnings calculated according to China's generally accepted accounting principles and its relevant financial regulations, which are different from the international financial reporting standards.

In addition, according to the relevant laws and regulations in China, for a profit distribution, a subsidiary shall first appropriate at least 10% of the annual after-tax net profit as legal surplus (as a legal reserve for dividend distribution; however, no further appropriation is required when the reserves accumulated amount to 50% of the company's registered capital), and then a 10% withholding income tax shall be paid if a subsidiary in mainland China pays dividends when the company remits out capital. Therefore, it may reduce the company's dividend distribution capacity.

### C. Whether a civil decision of the court of the Republic of China is recognized

According to the "Provisions of the Supreme People's Court Regarding the Recognition of the Civil Court Decisions in the Taiwan District" and the "Supplemental Provisions of the Supreme People's Court Regarding the Recognition of the Civil Court Decisions in the Taiwan District" announced and implemented by China's Supreme People's Court, for a civil court decision made in the Taiwan district, if the domicile, habitual residence or affected property of the party affected by the decision is located in the other province, autonomous regions or municipalities directly under the central government in China, the party affected by the decision may within two years of the decision's validity apply with the people's court for recognition, or may file an application for property preservation. After the people's court recognizes the civil court decision made in a Taiwan district, the decision bears the same effect as one of the people's court. Although the judicial authorities of China and Taiwan judiciary have not signed mutual legal assistance agreements or other similar agreements, according to the relevant provisions of the Chinese judicial organizations and the judicial assistance agreement signed by the competent authorities across the Taiwan Strait, Chinese lawyers think that based on the principle of reciprocity and not violating the related laws and regulations, public order and good customs, China may recognize and execute a civil court or arbitration decision made in the Taiwan district. If the Chinese court does not acknowledge a court decision of the Republic of China (Taiwan), the decision cannot be executed even if the investor obtains the decision in the Republic of China (Taiwan). Therefore, investors may encounter the risk of an unsuccessful claim outside of Taiwan, and investors should understand the risk associated with the securities law when purchasing foreign issued securities.

3. In recent years and up to the date of the publishing of the annual report, the impact of interest rate and exchange rate changes and inflation on the company's profit and loss and future coping measures:

(1) Interest rate

The company's interest rate risk is mainly from bank borrowings, which put the company under the cash flow's interest rate risk and market price interest rate risk. The interest income is from the interest on bank deposits, and the interest expenditure is mainly the cost of borrowing from banks. The company's interest income in 2013, 2014 and 2015 is NTD16,767 thousand, NTD47,687 thousand and NTD35,906 thousand respectively, accounting for 0.62%, 1.55% and 0.82% of the net operating revenue. The interest expenditure is NTD12,998 thousand, NTD16,025 thousand and NTD1,421 thousand respectively, accounting for 0.48%, 0.52% and 0.03% of the net operating revenue, and the above percentages are not high. Therefore, the impact of interest rate changes on the operation of the company is still limited.

Coping measures:

The company has always been maintaining good relations with banks. Besides, the company has financial soundness and a good credit, and can obtain a better interest rate. It is expected that future changes in interest rates should not have a significant impact on the overall operation of the company. In addition, the company constantly pays attention to changes in interest rates and takes appropriate measures to reduce the impact of interest rate changes on the company's profit and loss.

(2) Exchange rate

The company was listed on the Taiwan Stock Exchange on Nov. 27, 2013. Due to changes in the economic environment, the board of directors passed the resolution to change the company's functional currency from USD to NTD.

Furthermore, the company's main operating entities are all located in mainland China and use CNY for daily operations, and basically the purchase and sales are also carried out in CNY. There was an exchange profit of NTD6,368 thousand in 2013, and an exchange loss of NTD2,155 thousand and NTD21,822 thousand in 2014 and 2015 respectively, which accounts for 0.78%, -0.25% and -1.59% of the current operating profit respectively, and the effect is low.

Currently the risks of exchange rate fluctuations of the company's main operating entities are the revenue and purchase in the non-functional currency, the intellectual property company's royalty income transacted in USD, and the subsidiaries' purchase from Taiwan carried out in USD. However, the amount of revenue and payment only accounts for a small proportion of the company's cash flow, and the corresponding exchange rate risk is low. In addition, the foreign currency exchange rate used is the rate determined by the People's Bank of China according to supply and demand, and as CNY is not freely convertible, the remittance of funds to the territories outside mainland China are subject to the exchange controls by the Chinese government.

Coping measures:

- ① Continue to strengthen the financial personnel's exchange hedging concept; use the real-time exchange rate system on the internet to and through more frequent contacts with financial institutions in order to judge the trend of exchange rates as a reference for foreign exchange settlement.
- ② Maintain close contact with principal bankers and be ready to monitor the changes in the foreign exchange market, in order for related managers to fully grasp the changing trend of the exchange rate and make timely adjustments if there are incidental changes in the currency used for collection and payment of money.
- ③ Use the same currency of sales revenue to pay procurement and related expenses wherever possible to achieve an automatic hedging effect.

### (3) Inflation

In recent years the European debt detonated a global financial crisis. Because the Mediterranean countries are high in debt, and the EU high-level management handles the European debt issue in a slow pace, concerns about the default on the national debts are increasing. This results in the abnormal soaring of these countries' government bond yields and significantly increases the financing difficulty, making the formation of a credit squeeze and a system risk of a lack of market liquidity likely. In order to solve the economic dilemma, many countries have put forward economic revitalization programs, leading to the expansion of budget deficits in these countries, and causing concerns about inflation.

To summarize the above, in the rapid changes of the overall economic environment, the company has not faced any immediate impact because of inflation or deflation mentioned above. Besides, the end users of the company's products are the general public. The company will constantly pay attention to changes in the regional economy and price fluctuations of raw materials and terminal products, and maintain a good interactive relationship with suppliers and consumers. The company in the face of the global economic environment changes will also adjust the marketing strategy and the cost structure in order to withstand the impact caused by the overall economic environment change such as inflation or deflation, and prevent the company from any significant impact.

4. In recent years and up to the date of the publishing of the annual report, the company's policies and the main reasons for the profit or loss in high risk and high leverage investments, loans to others, endorsements, guarantees and derivative transactions and its future coping measures:

(1) The company's policy and main reasons for the profit or loss in high risk and high leverage investments and its future coping measures

The company based on a principle of stability and a pragmatic business philosophy, has not engaged in high risk, high leverage investment other than paying attention to its main business. The financial policy



is based on a moderate and conservative principle, and all investments are executed after careful assessments.

(2) The company's policy and main reasons for the profit or loss in loans to others and its future coping measures:

The company has in place a "Management Approach for Loans to Others" which is passed by the board of directors and serves as the basis for compliance by the company and its subsidiaries in the related business. Up to the date of the publishing of the annual report, the company's loans to others have been operated according to laws and regulations and announced, and there is no loan to companies other than its merged companies. Overall, it has no significant impact on the profit or loss in the consolidated financial statements.

(3) The company's policy and main reasons for the profit or loss in endorsements and guarantees and its future coping measures:

The company has in place a "Management Approach for Endorsements and Guarantees" which is passed by the board of directors and serves as the basis for compliance by the company and its subsidiaries in the related business. Up to the date of the publishing of the annual report, there is no endorsement and guarantee between company's merged companies or no endorsement and guarantee for other companies except the company's merged companies. Overall, it has no significant impact on the profit or loss in the consolidated financial statements.

(4) The company's policy and main reasons for the profit or loss in derivative transactions and its future coping measures:

Up to the date of the publishing of the annual report, the company and its merged companies have not engaged in derivative transactions. In the future, the company will depend on the operating condition regularly assess related hedging strategies, and process in accordance with the provisions of "Procedures for Acquisition or Disposal of Assets".

5. In recent years and up to the date of the publishing of the annual report, the company's future R&D plan and expected R&D expenses

Due to the rise of the Asian emerging markets which drives a revolution in global cosmetics, the trend has shifted and increased from a simple focus on skin maintenance requirements for Europeans and Americans to the R&D and promotion of functional products for whitening, sunscreen, anti-aging and anti-oxidation in order to create more opportunities for the beauty and skin care market in Asia. Taking the vast Chinese market as an example, in order to meet the diverse skin care needs of consumers,

cosmetics in the Chinese market will face strict product line segments and be divided into general customers' "home care" products and "professional skin care" products for use in skin care beauty salons through the introduction of high-tech professional instruments for deep skin care.

As the company is a well-known beauty chain store with its brand products, on product research and development it is committed to meeting diversified customer needs and satisfying the vast customers:

(1) Future R&D projects

For the company's future R&D projects, please refer to the "R&D of new products" of "V. Operations status".

(2) R&D expenses expected into the future

The company's R&D expenses in 2013, 2014 and 2015 was NTD15,171 thousand, NTD14,967 thousand and NTD17,729 thousand respectively, accounting for 0.56%, 0.49% and 0.40% of the annual revenue. The company's main R&D center is Taiwan Branch, Chlitina Marketing Ltd., which has a factory in Songjiang, Shanghai with R&D personnel for technology transfer and process improvement. There is also a R&D center in France with French R&D consultants responsible for the provision of new product information about beauty and skin care products in advanced countries in Europe. At present the company's R&D direction is in professional beauty products, personal skin care products, aromatherapy and spa products. With the expansion of the R&D scale in the future, it is expected that the annual R&D expenses will account for about 1% of the revenue in 2016.

6. In the last year and up to the date of the publishing of the annual report, the impact of changes in important domestic and foreign policies and laws on the company's financial operations, and its coping measures

The company's registered domicile is in the Cayman Islands, and the main operations are in mainland China. The Cayman Islands is a place with financial services as the main economic activity, with an open economy and no foreign exchange control. China is now one of the world's major economies. Though its economy is increasingly open, outward capital remittance is still subject to the foreign exchange control of the Chinese government. Therefore, if in the future the Chinese government changes the policy, taxation, economic status or interest rate policy, or there is an occurrence of any political, diplomatic or social events, it may have an impact on the company's business. The company's various businesses are in compliance with important domestic and foreign policies and laws, and the company constantly pays attention to the change of important policy trends and law changes in order to respond to the market environment changes in time and take appropriate countermeasures.

7. In the last year and up to the date of the publishing of the annual report, the impact of changes in technology and industry on the company's financial operations, and its coping measures

With the rapid modernization of science and technology, in addition to keeping abreast of the market and technology trend, the company also conducts researches on all kinds of raw materials and skin care products to develop the most suitable products for the weather and skin and body care in Asia, and provide the best quality products and services to consumers in order to expand the market share and firmly grasp the changes in the industrial environment. In the last year and up to the date of the publishing of the annual report, the company has no major technological change and there has been no change in the industry, which may cause a significant impact on the financial status.

8. In the last year and up to the date of the publishing of the annual report, the impact of corporate image change on corporate crisis management, and its coping measures

Adhering to a robust and pragmatic spirit of enterprise management, since its inception the company has been actively strengthening its internal management and improving quality and efficiency, and there has been no change of corporate image which triggered corporate crisis management. If the future if there is a corporate image change which impacts the company's corporate crisis management capabilities, the company will not be able to immediately react to the economic or market changes, and it will thus have an adverse effect on the company's operations.

The company will be more committed to the maintenance of corporate governance, the adherence of operation transparency, the cultivation of the management team's strength, and then return the operating results to the shareholders and fulfill the corporate social responsibility in order to strengthen its corporate image.

9. In the last year and up to the date of the publishing of the annual report, the expected benefits of mergers and acquisitions, the risks and coping measures

In the last year and up to the date of the publishing of the annual report, the company has not made any acquisitions.

10. In the last year and up to the date of the publishing of the annual report, the expected benefits of factory expansion, the risks and coping measures

The company has no factory expansion plan in the last year and up to the date of the publishing of the annual report.

11. In the last year and up to the date of the publishing of the annual report, the risks of concentration of purchasing and sales, and coping measures

### (1) Risk of Purchasing Concentration

The main raw materials produced by the company include chemical raw materials, semi-finished products and packaging materials, and there are many suppliers. In order to maintain the negotiation flexibility of the raw material prices while ensuring the sources of raw materials, the group signed a one-year supply contract with a small number of suppliers and maintains several suppliers for the main raw materials, and maintains good long-term relations of cooperation with suppliers to ensure the stability of sources of supply.

In 2012, the group underwent a restructuring. After the integration of production processes, the proportion of purchase from each supplier is controlled below 10%. In addition, because (1) since 2013, all the purchase has been carried out by the company's operating base in Taiwan directly with Charming Biotech Corporation, resulting in a 11.13% net purchase weighting from Charming Biotech Corporation in 2014 and 10.56% in the first quarter of 2016; (2) In 2014 due to the popularity of health food, the company's net purchase weighting from Sagittarius Life Science Corp. reached 16.53%; (3) from 2014 onwards, Weishuo has been providing product processing services for Chlitina China. The increase in the orders of Chlitina China results in a rise in the purchase of Weishuo's purchase amount of corresponding semi-finished products and packaging materials. This is because company A has products with superior quality and reasonable prices, and is a long-term partner of the company, so the company purchases part of semi-finished products and packaging materials from it. In 2015 the net purchase weighting from company A reached 24.04%, and 27.35% in the first quarter of 2016. The net purchase weighting from the rest of the suppliers is below 10%, so the company does not have the risk of purchase concentration.

### (2) Sales concentration risk

The company's main business model is to provide professional beauty and skin care services and product sales through the chain business system, so the top ten sales customers were mostly the company's franchise stores in 2014 and 2015. In 2014, the company's amount of transactions with the top ten sales customers was NTD162,853 thousand, accounting for only 5.30% of the total transaction amount. In recent years, the expansion of the company's a number of franchise stores has contributed to the company's steady performance growth, and increased and diversified the company's sales customers. Therefore, the sales to single customers accounted for less than 5% of the company's net sales in 2014.

In 2015 and the first quarter of 2016, because the company provided product processing services for Chlitina China and charged a royalty for the use of the trademark, the net sales amount to Chlitina China reached 28.85% and 31.70%. In addition, the net sales amount to other customers was below 5%. Therefore the company does not have a sales concentration risk.

12. In the last year and up to the date of the publishing of the annual report, the impact of volume transfer or change of shares by its directors, supervisors or major shareholders holding more than 10% of the shares to the company, the risks, and its coping measures

The company is an investment holding company set up in the Cayman Islands on July 3, 2012. Since the establishment, there has been no volume transfer or change of shares by its directors, supervisors or major shareholders holding more than 10% of the shares.

13. In the last year and up to the date of the publishing of the annual report, the impact of the change of management right to the company, the risks, and its coping measures

In the last year and up to the date of the publishing of the annual report, the company has no change of management right. The company has strengthened its management measures and introduced independent directors in order to enhance the overall protection of the interests of shareholders. Besides, most of the company's day-to-day operations rely on professional managers, and the current strong team of professional managers has made a considerable contribution to the company's business performance and should receive the shareholders' continuing support in the future. Therefore, if the management right changes, it should not have a significant negative impact on the company's management and operational advantages.

#### 14. Litigations or non-litigations

(1) Regarding the company's determined or ongoing litigations, non litigations or administrative lawsuits in recent years and up to the date of the publishing of the annual report, the results may have a significant impact on shareholders' equity or securities price, and the facts of the issues in dispute, subject amounts, litigation start dates, main parties involved in the litigant and current status, which should be disclosed in accordance with an agreement, are given in the following table.

No.	Group Company	Counterparties	The disputed facts and the suit amount	Progress / case closure circumstances
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1	Chlitina (Shanghai)Trade Limited	Plaintiff: Shanghai Shunlei Electronics Commerce Company Limited  Defendant: Chlitina (Shanghai)Trade Limited	Because of 'Lynx Proxy Operations Cooperation Agreement,' 'Lynx Proxy Operations Cooperation Agreement Supplementary Agreement (new stores)' service fee, Shanghai Shunlei Electronics Commerce Company Limited filed a lawsuit against the company for failing make timely and full payment for service costs, requesting that counterclaimant pay fees, commissions and assume liability for breach for a total of 491,000 Yuan. After several unsuccessful negotiations, the Company filed a counterclaim to the court for the other party failing to complete construction on time and requesting a refund of part of the Lynx mall store operation and service fees paid.	A counterclaim for this case has currently been filed to the Shanghai Changning District Peoples' Court by our company. A hearing for this case was already held on May 25, without verdict.
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2	Chlitina (Shanghai)Trade Limited	Plaintiff: Meng Qian  Defendant: Chlitina (Shanghai)Trade Limited	The plaintiff, Meng Qian, is a mainland Chinese singer and actor. Because the Hebei Langfang Zhang Cuihong franchise store, while conducting online purchase activities in Beijing 55 Tuan Group, made unauthorized use of the plaintiff's image, and a portrait rights dispute ensued. The plaintiff demanded compensation from the Company for economic loss of 50,000 Yuan, as well as 10,000 Yuan in compensation for moral damage. At the same time the singer asked the Company to issue an apology on national public newspapers and websites. After communication, the infringing franchise store could not reach agreement with the plaintiff for withdrawal of litigation. A hearing for this case will be held on May 17th. The Company has clearly expressed to Beijing Haidian District Peoples' Court that the Company is not the actual infringer, and is disqualified as the defendant. Subject of infringement will be decided on the day of the hearing.	A hearing for this case was already held on May 19, without verdict.
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(2) Company directors, supervisors, president, actual responsible persons, and major shareholders and subordinate company holding in excess of ten percent of Company shares, during the last two years and up to the date of publication of the letter of explanation or those currently in litigation, non-litigation or administrative contentious events, whose results may have a significant impact on shareholders' equity or securities prices, should reveal the facts of their disputes, the subject amount, date when litigation began, the main parties involved and the current state of proceedings: none.

15. Other Significant Risks and Response Measures for the Most Recent Year and up to the Annual Report's Date of Publication:

(1) Risk of Damage to the Brand Image:

As a cosmetics skin care chain brand directly facing a vast market of consumers, brand image is crucial to the company. However, as the Company continues to operate and expand, there is a risk of its products on the market being faked or being subject to malicious attacks, which would affect the

Company's brand image and interests, having a definite degree of negative impact on the Company. If rights such as the Company's brand image are violated, or its reputation suffers malicious slander, the Company elects to perform maintenance in accordance with legal means, which may possibly use up a certain amount of The Company's financial power, material power and human power, and thus adversely affect the normal operations of the Company. The Company's Chlitina brand is a well-known trademark in China which has won positive acclaim, which may increase the criminal liability of counterfeiters, highlighting the government's attention to maintenance of the Chlitina brand, and thus helping reduce the risk of product counterfeiting and damage to the brand image.

#### (2) Risk of Movement of Professional Beauticians

Professional beauticians are the mainstay of beauty salons. Training and education generally takes about two years to complete, but due to the annual turnover ratio for the industry as a whole being too high, this has led to uneven quality in the professionalism of beauticians. Also, the intensity of market competition, can easily cause substantial movement of professional beauticians.

#### (3) Risks Arising from Chain Store Management

The advantages of franchise stores lie in the speed of brand penetration, and relatively low barriers to entry, while their disadvantage is a stronger sense of dependence on the company headquarters and having concern that operations and sales of the franchise itself are slack, the difficulty in management increases slightly. To effectively manage the Company's many chain stores spread throughout China at all city levels, in addition to using each branch company to manage each province or major region, including supervision of inspections and approvals, local training, and promotional guidance, to improve granular access control over the many franchise stores, and establish sound and complete system specifications, upon joining, franchisee owners must sign contracts with the Company, which include industry competition prohibition conditions. Also, through unscheduled visits to stores and evaluation of store performance, etc., the Company actively controls franchise stores around the country, to prevent cut-throat competitions and other violations, in order to maintain the Company's reputation and competitiveness. Although the Company has established a sound management system and is committed to franchise control, there are still bad franchise stores in the chain system, which are further not amenable to discipline and improvement, and, this will likely have an adverse impact on the Company's goodwill and reputation.

#### (4) Risk of Price Fluctuations Affecting Operating Costs

As Chlitina products boast natural plant extracts and essences, the main raw materials include rose, herb pollen, seabed algae, vitamins, amino acids and various rare plants. The diverse characteristics of their



places of origin make obtaining raw materials vulnerable to the impacts of climate, which affects the cost of production. Also, packaging materials include paper packaging, plastic packaging, glass packaging and other packaging materials whose costs are also affected by fluctuations in crude oil prices, which affect the purchase price.

#### (5) Risk of Leakage of Raw Material Formulas

Production of the Company's main products is carried out using unique formulas of raw materials, while the core technologies are acquired through repeated scientific experiments and research and long-term production practices. The Company's core technical personnel are in control of part of confidential formulas. Although the Company has carried out stringent raw material formula protection measures, if competitors or other third parties were to obtain the Company's exclusive formulas and develop or produce similar products, this may have a certain degree of impact on the Company's financial state and operating conditions. However, in peoples' choice of skin care products cosmetic brand, reliability is still the most important consideration. Even if the functions and raw materials and two products are virtually identical, because brand reliability is different, consumers will still choose the branded products which they trust in their hearts, which relatively lowers the risk of unilateral raw material formula leakage.

#### (6) Risks to Shareholders' Equity Safeguards

There are many different provisions in the Company Act of the Cayman Islands and that of the ROC. Although the Company has amended its Articles of Incorporation in accordance with the provisions of the Taiwan Stock Exchange's 'Reference Model for Important Matters of Shareholders' Rights and Interests Protection', there are still many differences in the legal requirements of the two places with respect to company operations. Investors cannot view investing in a Cayman-registered company from the viewpoint of the legal rights applicable to investors investing a Taiwan company, applying these rights mechanically to investing in the Caymans. Investors should ensure they have a thorough understanding and consult with experts on whether or not investments in a Cayman Islands company would provide them with safeguards to shareholder equity.

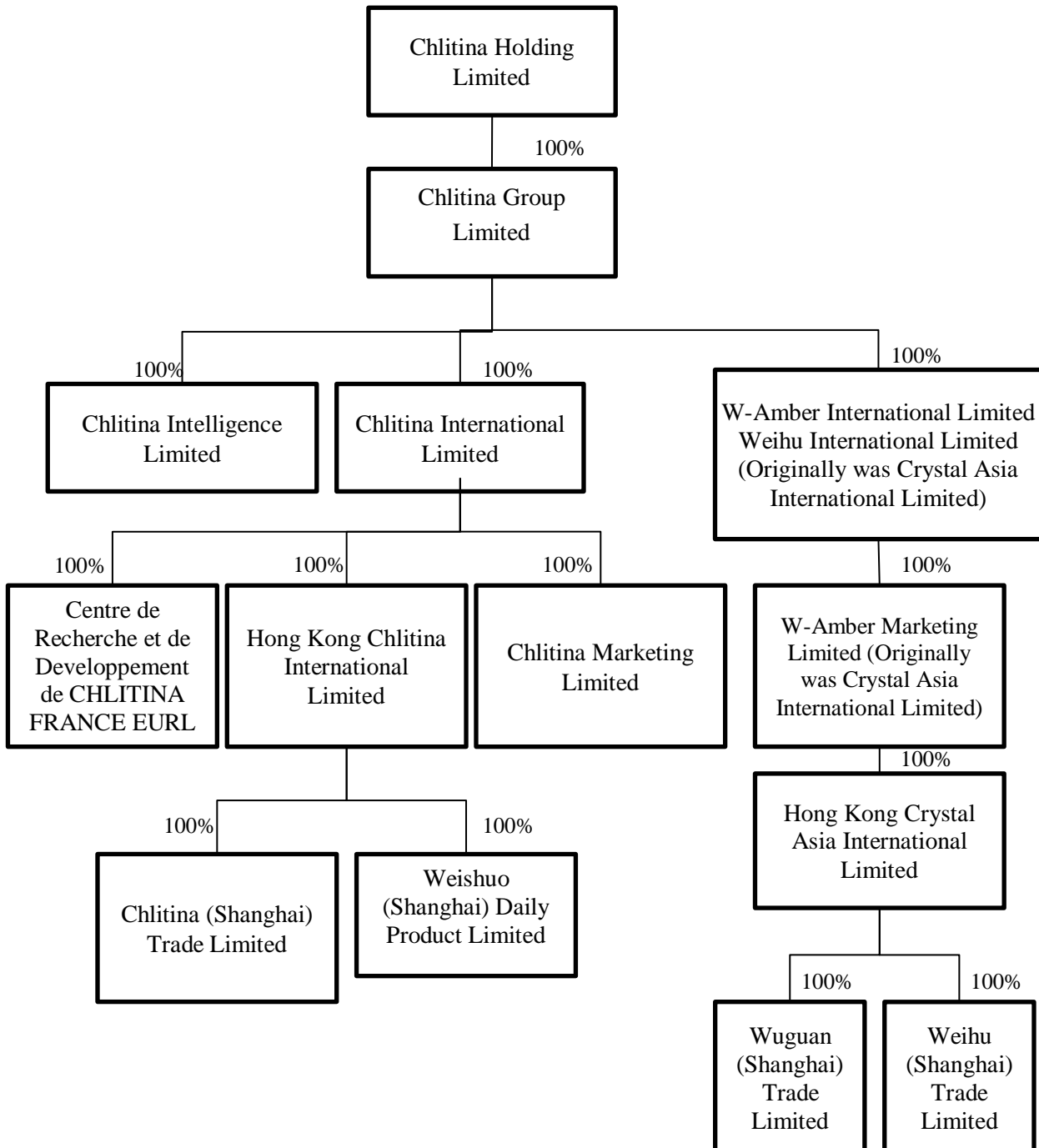
### **vii. Other important matters: None**

## VIII. Special notes

### i. Information of Affiliated companies

#### 1. Organization chart of Affiliated Companies

Dec. 31, 2015



Note: Chlitina Intelligence Limited, Chlitina Marketing Limited, Chlitina (Shanghai) Trade Limited all have subsidiaries, which were numerous and not listed in the chart. Please see the company message at the beginning of the document.

2. The relationship to the affiliates, rate of holding share, shares and actual investment amount

Dec. 31, 2015

Name of Affiliated Companies	Relationship to this Company	This company holding			The affiliated companies holding this company		
		Rate of holding share	Number of Shares(shares)	Invested amount (NTD)(Note)	Rate of holding share	Number of Shares(shares)	Invested amount (NTD)
Chlitina Group Limited	Subsidiary	100%	3,206,707,348	USD32,067,073	-	-	-
Chlitina International Limited	Second-tier subsidiary	100%	17,000,001	USD17,000,001	-	-	-
Chlitina Intelligence Limited	Second-tier subsidiary	100%	1	USD1	-	-	-
W-Amber International Limited (Originally was Crystal Asia International Limited)	Second-tier subsidiary	100%	12,000,000	USD12,000,000	-	-	-
Centre de Recherche et de Developpement de CHLITINA FRANCE EURL	third-tier subsidiary	100%	500	EUR5,000	-	-	-
Hong Kong Chlitina International Limited	third-tier subsidiary	100%	62,150,001	HKD62,150,001	-	-	-

Name of Affiliated Companies	Relationship to this Company	This company holding			The affiliated companies holding this company		
		Rate of holding share	Number of Shares(shares)	Invested amount (NTD)(Note)	Rate of holding share	Number of Shares(shares)	Invested amount (NTD)
Chlitina Marketing Limited	third-tier subsidiary	100%	10,695,997	USD10,695,997	-	-	-
W-Amber Marketing Limited (Originally was Crystal Asia International Limited)	third-tier subsidiary	100%	12,000,000	USD12,000,000	-	-	-
Chlitina (Shanghai) Trade Limited	Fourth-tier subsidiary	100%	Limited companies, so no shares and par value	USD8,570,000	-	-	-
Weishuo (Shanghai) Daily Product Limited	Fourth-tier subsidiary	100%	Limited companies, so no shares and par value	USD2,150,000	-	-	-
Hong Kong Crystal Asia International Limited	Fourth-tier subsidiary	100%	92,800,000	HKD92,800,000	-	-	-
Wuguan (Shanghai) Trade Limited	Fifth-tier subsidiary	100%	Limited companies, so no shares and par value	USD2,000,000	-	-	-
Weihsu (Shanghai)Trade Limited	Fifth-tier subsidiary	100%	Limited companies, so no shares and par value	USD8,000,000	-	-	-

Note : Actual paid-in capital

The main businesses of the Company and its Subsidiaries and Branches are as follows:

- (1) The Company (Chlitina Holding Limited) is an offshore holding company, with no actual economic activities.
- (2) Chlitina Group Limited, Chlitina International Limited and W-Amber Marketing Limited are investment holding companies.
- (3) Chlitina Intelligence Limited is an investment holding and intellectual property holding company.
- (4) The main items of operation of the Centre de Recherche et de Developpement de Chlitina France Eurl. are research and development of cosmetic skincare products.
- (5) Hong Kong Chlitina International Limited is an investment holding company, whose main items of operation are the marketing of cosmetic skincare products.
- (6) Chlitina Marketing Limited is an investment holding, cosmetic skincare product marketing, and R & D company.
- (7) W-Amber Marketing Limited is an investment holding company.
- (8) The main items of operation of Chlitina (Shanghai) Trade Limited are the sale of cosmetic skincare products.
- (9) The main items of operation of Weishuo (Shanghai) Daily Product Limited are the production and sale of cosmetic skin care products.
- (10) Hong Kong Crystal Asia International Limited is an investment holding company.
- (11) The main items of operation of Wuguan (Shanghai) Trade Limited, are the sale cosmetic skin care products and health food products.
- (12) The main items of operation of Weihu (Shanghai) Trade Limited are investment holding, and sale of cosmetic skin care products and health food products.

According to Article 369- 3 of the Company Act's stipulation of affiliates and subsidiaries: In accordance with the above affiliate enterprise organization chart, all affiliates of the Company are the Company's subsidiaries.

**3. Information on directors, supervisors and president of respective affiliated enterprises:**

Dec. 31, 2015

Name	Title	Name or representative	Holding share	
			Number of Shares (Shares)	Rate of holding share %
Chlitina Group Limited	Director	Pi-hua Joanna Chen	3,206,707,348	100.00
Chlitina International	Director	Pi-hua Joanna Chen	17,000,001	100.00

Limited				
Chlitina Intelligence Limited	Director	Pi-hua Joanna Chen	1	100.00
W-Amber International Limited (Changed name from Crystal Asia International Limited)	Director	Pi-hua Joanna Chen	12,000,000	100.00
Centre de Recherche et de Developpement de CHLITINA FRANCE EURL	Director	Pi-hua Joanna Chen	500	100.00
Hong Kong Chlitina International Limited	Director	Pi-hua Joanna Chen	62,150,001	100.00
Chlitina Marketing Limited	Director	Pi-hua Joanna Chen	10,695,997	100.00
W-Amber Marketing Limited (Originally was Crystal Asia International Limited)	Director	Pi-hua Joanna Chen	12,000,000	100.00
Hong Kong Crystal Asia International Limited	Director	Pi-hua Joanna Chen	92,800.000	100.00
Chlitina (Shanghai) Trade Limited	Director, President, Supervisor	Pi-hua Joanna Chen, Le-Wei	note	100.00
Weishuo (Shanghai) Daily Product Limited	Director, President, Supervisor	Pi-hua Joanna Chen, Le-Wei	note	100.00
Wuguan (Shanghai) Trade Limited	Executive Director	Pi-hua Joanna Chen	note	100.00
Weihu (Shanghai)Trade Limited	Executive Director	Pi-hua Joanna Chen	note	100.00

Note: It has been established in the type of limited company without issuance of shares.

#### 4. Operating status of respective affiliated enterprises

Dec. 31, 2015

Re-investment enterprise	Main scope	Invested cost (note 1)	Invested shares		Net value of equity: thousand dollars	Market price (note 3)	Handling manner of accounting	2015 Return on investment		The amount of shares held by the Company
			Number of Shares (shares)	Equity ratio %				Invested profit/ loss: thousand dollars	Dividend distribution: thousand dollars	
Chlitina Group Limited	Investment holdings	USD 32,067,073	3,206,707,348	100.00	4,366,430	-	Equity Method	1,183,330	286,288	None
Chlitina International Limited	Investment holdings	USD 17,000,001	17,000,001	100.00	3,243,310	-	Equity Method	529,553	-	None
Chlitina	Investment	USD1	1	100.00	658,765	-	Equity	665,671	286,288	None

Intelligence Limited	holding and Company holding Intellectual property right						Method			
W-Amber International Limited (Changed name from Crystal Asia International Limited)	Investment holdings	USD 12,000,000	12,000,000	100.00	367,789	-	Equity Method	(11,803)	-	None
Centre de Recherche et de Developpement de CHLITINA FRANCE EURL	R&D of beauty skin care products	EUR 5,000	500	100.00	-	-	Equity Method	-	-	None
Hong Kong Chlitina International Limited	Investment holding and sales of beauty skin care products	HKD 62,150,001	62,150,001	100.00	3,013,300	-	Equity Method	574,746	-	None
Chlitina Marketing Limited	investment holdings, skin care product sales, and health food products and R&D	USD 10,695,997	10,695,997	100.00	166,925	-	Equity Method	(40,537)	-	None
W-Amber Marketing Limited (Changed name from Crystal Asia International Limited)	Investment holdings	USD 12,000,000	12,000,000	100.00	367,530	-	Equity Method	(11,536)	-	None
Hong Kong Crystal Asia International Limited	Investment holdings	HKD 92,800,000	92,800,000	100.00	364,840	-	Equity Method	(12,206)	-	None
Chlitina (Shanghai) Trade Limited	Sales of beauty skin care products	USD 8,570,000	(note 2)	100.00	1,946,697	-	Equity Method	254,212	-	None
Weishuo (Shanghai) Daily Product Limited	Product and sales of beauty skin care products	USD 2,150,000	(note 2)	100.00	1,032,242	-	Equity Method	293,707	-	None
Wuguan (Shanghai) Trade Limited	Sales of skin care products, and health	USD 2,000,000	(note 2)	100.00	(6,687)	-	Equity Method	(8,536)	-	None

	food products									
Wei hu (Shanghai) Trade Limited	Sales of skin care products, and health food products	USD 8,000,000	(note 2)	100.00	250,902	-	Equity Method	(3,488)	-	None

Note 1: It is expressed according to the paid-in capital.

Note 2: It has been established in the type of limited company without issuance of shares.

Note 3: Given that the held shares do not trade in the open market, no market price is available to refer to.

- ii. Private placement of securities in the latest year (2015) and as of the date of printing of the annual report: Nil**
- iii. Subsidiary's holding or disposal of the Company's stock in the latest year (2015) and the date of printing of the annual report: Nil**



**iv. Other matters which need additional clarification: explanation of the significant differences with the ROC provisions for shareholder equity safeguards.**

As there are slight inconsistencies between Cayman law and ROC law, the 'Foreign Issuer Place of Registration Shareholders Equity Protection Matters Inspection Table' (hereinafter referred to as 'Shareholder Equity Protection Matters') issued by the Taiwan Stock Exchange Corporation can naturally not be applied to this company. The following table explains where the Articles of Incorporation of the Company differ with respect to protection of shareholders' equity due to provisions of Cayman law, and the provisions of the Company's Articles of Incorporation.

Items of Difference	Explanation of Cayman Law	Provisions of the Articles of Incorporation and Explanations
<p>'Special resolution' refers to resolutions made by a majority of shareholders with right to vote when shareholders representing more than two thirds of the total number of the Company's issued shares are in attendance. For companies with public offering, when the total number of shares of shareholders in attendance does not meet the aforementioned determined amount, they may instead adopt the method of having shareholders representing more than half of the total number of the Company's issued shares being in attendance, of which a majority of more than two-thirds is required to pass resolution.</p>	<p>The Cayman Islands Company Act provides that 'special resolution' refers to resolutions reached through the voting rights of shareholders in attendance with 'consent of more than two-thirds', and the legally stipulated number of shareholders in attendance at a shareholders' meeting is the number of shareholders in attendance able to represent half of issued shares.</p>	<ol style="list-style-type: none"> <li>1. According to the explanation in the letter dated Apr. 13, 2010 ref. Tai-Cheng-Shang No. 0991701319 of the Taiwan Stock Exchange, regarding the percentage of attendance and voting on issues which substantially impact major shareholders' equity, it may be "attendance by shareholders representing over behalf of the total number of shares issued, and agreement by over two thirds of the attending shareholders" to meet the requirements of both the Cayman regulations and the ROC's Company Act concerning the percentage of attendance and voting for a public company's special resolution.</li> <li>2. Articles 31 and 2(1) of the company's Articles of Incorporation stipulate that a "special resolution" refers a resolution in a shareholders' meeting attended by shareholders representing over behalf of the total number of shares issued with</li> </ol>

Items of Difference	Explanation of Cayman Law	Provisions of the Articles of Incorporation and Explanations
		voting rights, and agreed by over two thirds of the attending shareholders. This is in line with requirements of both the Cayman regulations and the country's Company Act concerning the percentage of voting for a public company's special resolution.
<ol style="list-style-type: none"> <li>1. When a company reduces capital without resolution of a shareholders meeting, the company may not annul its shares; reduction of its capital should be in reduced in proportion to shares held by shareholders.</li> <li>2. When a company reduces capital, monies may be refunded in forms other than cash; the property returned and offset amount shall be approved by a shareholders' meeting, and receive the consent of the shareholders.</li> <li>3. The value of the property of the preceding paragraph and the offset amount, should be sent to an ROC CPA for document inspection by the board of directors before the shareholders' meeting.</li> </ol>	<p>According to the provisions of Article 14 - 18 of the Company Act of the Cayman Islands, with respect to capital reduction involving force, reduction of company capital is subject to agreement of a special resolution of a shareholders meetings, and should be approved a capital- reduction order issued by the Cayman Islands Court as well.</p>	<p>Because the Company Act of the Cayman Islands has strict regulations on the capital reduction of a company and the relevant regulations are compulsory and can be avoided only by changes to the Articles of Incorporation. As confirmed by the Cayman Islands lawyer, the change to Article 18-1 of the company's Articles of Incorporation meets the requirement in the provisions in the leftmost column by stating that shareholders buy back shares based on their respective shareholding percentages and have the shares bought back cancelled, which in essence is the same as the provisions.</p>
<p>If shareholders convene a shareholders' meeting outside the territory of the Republic of China, within two days of a board of director's resolution or obtaining permission to convene from the competent authority, this should be submitted to the stock exchange for consent.</p>	<p>Cayman Islands Company Act does not require shareholders' meetings to be held within the territory of the Cayman Islands.</p>	<p>Article 25 of the Articles of Incorporation of the company stipulates that "during the listing period, the shareholders' meetings of the company shall be held in the territory of the Republic of China (Taiwan) " without exception. Therefore it is not required to otherwise establish provisions for</p>

Items of Difference	Explanation of Cayman Law	Provisions of the Articles of Incorporation and Explanations
		"shareholders' meetings held outside the Republic of China (Taiwan)".
<p>Those shareholders who continue for more than a year to hold more than three percent of the total shares issued, may note proposals and their reasons in writing, requesting that the board of directors convene an extraordinary meeting of shareholders. Within 15 days of the request being made, when the board of directors has not issued notification for convening, shareholders may report to the competent authority for approval and self-convene the meeting.</p>	<p>There is no local competent authority in the Cayman Islands to approve the convening of shareholders' meetings.</p>	<p>According to the explanation in the letter dated Apr. 13, 2010 ref. Tai-Cheng-Shang No. 0991701319 of the Taiwan Stock Exchange, under circumstances that foreign issuers contradicts the laws and regulations in the registered domiciles, the parts concerning the minority shareholders' right to convene an extraordinary meeting and the permission of the competent authority in charge as prescribed in the Articles of Incorporation, can be deleted. Article 26 of the Articles of Incorporation of the company stipulates that shareholders who continue holding over 3% of the company's total shares for more than a year may propose in writing, with the proposed matters and reasons clearly stated, may request the board of directors to convene an extraordinary meeting. If the board of directors does not send a convening notice within fifteen days after receiving the request, the requesting shareholders may convene a shareholders' meeting on their own. Article 26 of the Articles of Incorporation previously mentioned already</p>

Items of Difference	Explanation of Cayman Law	Provisions of the Articles of Incorporation and Explanations
		meets the provisions of the leftmost column by stating that if the board of directors does not follow the written request to send a convening notice, the requesting shareholders may convene a shareholders' meeting on their own without a permission of the competent authority in charge.
When a company exercises voting rights in writing or by electronic means, the method of such exercise shall be clearly stipulated in shareholders meeting convening notifications. Shareholders who exercise their voting rights in writing or by electronic means shall be deemed as having attended the shareholders' meeting. However, with respect to extempore motions of the shareholders' meeting and amendments to original motions, these shall be deemed as abstained from.	Company Act of the Cayman Islands provides that exercising the right to vote is carried out in one of two ways, personally, or by proxy. Cayman lawyers believe that exercise of voting rights in writing or by electronic means is different from attending in person as prescribed in the Company Act of the Cayman Islands, and, should not be directly set as 'deemed to be attending a shareholders' meeting in person' and should be deemed as having already assigned the shareholders meeting chairperson as their agent.	Article 46 of the Articles of Incorporation stipulates that a shareholder who exercises the voting right in written or electronic form shall be deemed as designating the chairperson of the shareholders' meeting as the agent; however, this assignment should not be considered a proxy as defined in listing (OTC) regulations. There should be no substantive difference between the effects of the two.
If after shareholders exercise their voting rights in writing or by electronic means, they wish to attend a shareholders 'meeting in person, they should two days prior to the shareholders' meeting, through the same method of exercising voting rights, revoke the intention to exercise the voting rights in the way as stated in the preceding paragraph; for overdue revocations, voting rights exercised through writing or by electronic means shall prevail.	Company Act of the Cayman Islands provides that exercising the right to vote is carried out in one of two ways, personally or by proxy.	The latter of paragraph (2) of Article 47 of the Articles of Incorporation stipulates that if a shareholder does not make a withdrawal before the deadline and personally attends the shareholders' meeting, in principle the shareholder still has the right to personally attend the shareholders' meeting to exercise the right to vote, and the shareholder's appointment of the chairperson as the agent is deemed withdrawn. The exception is that the withdrawal

Items of Difference	Explanation of Cayman Law	Provisions of the Articles of Incorporation and Explanations
		notice before the meeting is irrevocable based on attached interest or other reasons under the Cayman act. The effects of the two are slightly different on the withdrawal before the deadline, but there should be no substantive difference on the protection of shareholder interests.
The relevant provisions of the 'Rules for Public Companies Using Proxies to Attend Shareholders' Meeting', such as delegating a soliciting person, soliciting method, soliciting public notices and restrictions, etc.	According to the explanations of Cayman Islands' lawyers, Cayman Islands law does not have a concept the equivalent of soliciting power of attorney.	According to the explanation in the letter dated Apr. 13, 2010 ref. Tai-Cheng-Shang No. 0991701319 of the Taiwan Stock Exchange, foreign issuers are allowed to stipulate in the Articles of Incorporation general provisions that the country's "Rules for the Use of Proxy for a Public Company's Shareholders' Meeting" applies. Therefore, Article 57 of the Articles of Incorporation stipulates that the use and soliciting of proxy should comply with the Cayman law and listing (OTC) regulations, especially following "Rules for the Use of Proxy for a Public Company's Shareholders' Meeting", which is in line with the requirement in the leftmost column.
After a power of attorney has been sent to a company, the shareholders wishing to attend a shareholders 'meeting in person, or wishing to exercise their right to vote in writing or by electronic means, should send the company a power-of-attorney revocation notice in writing two days prior to the shareholders' meeting; for	Company Act of the Cayman Islands provides that exercising the right to vote is carried out in one of two ways, personally or by proxy.	The latter of Article 53 of the Articles of Incorporation stipulates that if a shareholder does not make a withdrawal before the deadline and personally attends the shareholders' meeting, in principle the shareholder still has the right to personally attend the shareholders'

<b>Items of Difference</b>	<b>Explanation of Cayman Law</b>	<b>Provisions of the Articles of Incorporation and Explanations</b>
<p>overdue revocations, voting rights exercised through attendance of proxy shall prevail.</p>		<p>meeting to exercise the right to vote, and the shareholder's appointment of the chairperson as the agent is deemed withdrawn. The exception is that the withdrawal notice before the meeting is irrevocable based on attached interest or other reasons under the Cayman Act. The effects of the two are slightly different on the withdrawal before the deadline, but there should be no substantive difference on the protection of shareholder equity.</p>
<p>Companies should choose to assign an audit committee or supervisor/s. The auditing committee shall be composed entirely of independent directors, whose number not less than three, one of whom should be the convener, and at least one of whom shall have accounting or financial expertise. Resolutions of the audit committee should require the consent of more than half of the total membership of the auditing committee.</p>	<p>Company Act of the Cayman Islands does not require a company to appoint a supervisor or an auditing committee.</p>	<p>Articles 85 (1) and 85 (2) of the company's Articles of Incorporation stipulate that during the listing period, the company shall set up an audit committee. In the case of setting up an internal audit committee, the audit committee shall be composed of all independent directors and shall have no less than three persons; one of them shall be a convener, and at least one shall have an accounting or financial background. The company has not set up the supervisor role, but during the listing period audit committee is already set up in accordance with the requirement above, and this is in line with the requirement in the leftmost column.</p>

v. Other supplementary explanations: Nil

**IX. Any matters covered in Subparagraph 2 of Paragraph 2 of Article 36 of the Securities and Exchange Act occurred in the latest year and as of the date of printing of the annual report, which significantly impacted shareholders' equity and price of securities shall be explained: nil**

# Chlitina Holding Limited

Chairperson: Pi-hua  
Joanna Chen