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CHINA BILLS FINANCE CORPORATION

2016 ANNUAL REPORT

Printed on March 24 ,2017

CONTENTS

Annual Report 2016

I. Message to Shareholders

One. Performance Report

I. 2016 Global and Taiwan Economy

Global economic recovery continued in 2016 but lacked momentum. The pace of recovery also varied with the country and potential risks still exist. These include the monetary policy of the USA and the new economic and trade policy of the Trump Administration, the economic slowdown in Mainland China and some emerging economies, the repercussions of Brexit, the general elections in many countries of Europe, geopolitical risk, the fluctuation of global prices for crude oil and other commodities, the volatility of the financial market and stock market worldwide, and the emergence of trade protectionism, which clouded the prospect of international economic development. According to the latest forecast of Global Insight released in January 2017, global economic growth in 2016 was at 2.5% or a decrease from 2.7% in the same period of 2015.

The sluggish global economy hampered domestic economic growth. The increasing demand for IoT(Internet of Things), automotive electronics and new smart applications helped to stimulate further investment in the high-end products of the semiconductor industry. This was echoed with the positive effort of the government in nurturing an environment favorable for investment. The new 5+2 innovative industrial development program will also contribute to the cause for boosting up investment. According to the Directorate-General of Budgets, Accounting, and Statistics of the Executive Yuan, the projected economic growth released in January 2017, and economic growth in 2016 was 1.4% or an improvement of 0.65% over the same period of 2015.

II. Change of the Organizational Structure

Nil.

III. Performance Report

(I) Primary Market Transactions

1. Commercial Paper Certification and Underwriting

The Company had 8,718 commercial papers certified and underwritten in 2016, an increase of 22 commercial papers (or 0.25%) over the year 2015. The total transaction amount was NT$1,590,183 million, an increase of NT$138,390 million (or 9.53%) over the year 2015. The outstanding balance of commercial paper certified and underwritten by the Company amounted to NT$192,199 million as of the end of 2016.

2. Outstanding Balance of Guarantee

As of December 31, 2016, the guaranteed balance of the Company’s commercial paper amounted to NT$96,797 million, an increase of NT$9,966 million (or 11.48%) over the year 2015.

3. The initial Purchase of Bills

In addition to the certifications and underwritings of commercial papers, the Company had the initial purchase of bills, other than CP2, of NT$263,309 million in 2016, an inecrease of NT$26,523 million (or 11.20%) over the year 2015.

4. USD Commercial Papers

The cumulative certified and underwritten commercial papers in USD amounted to US$0 thousand in 2016, a decrease of US$ 1 million than the amount in 2015. In addition, the initial purchase of bills, other than commercial papers in USD, amounted to USD $0 thousand, a decrease of USD $210 million over the year 2015.

The Company’s trading volumes of commercial paper certification and underwriting went up in the primary market due to the steady economic recovery in 2016 and the Company’s aggressive expansion of bills underwriting and syndicated loans.

(II) Secondary Market Transactions

The bills traded in the secondary market amounted to NT$4,413,436 million in 2016, representing a decrease of NT$66,808 million (or -1.49%) over the year 2015. The USD bills traded in the secondary market, amounted to USD$35 million, representing a decrease of USD $175 million (or -83.33%) over the year 2015.

The Company’s bills trading volumes in the secondary market declined in 2016 albeit there was mild global economic recovery. Under keen competition, the Company’s trading volume of negotiable certificates of deposits offered by banks in the secondary market shrunk.

(III) Government Bonds

The Company’s government bonds trading amounted to NT$1,348,029 million in 2016, a decrease of NT$54,945 million (or -3.92%) over the year 2015. Regarding trading types, the Repo trading amounted to NT$1,145,798 million, accounting for 85.00% of the total trades and representing a decrease of NT$133,223 million (or -10.42%) over the year 2015. The Outright purchases/sales amounted to NT$202,231 million, accounting for 15.00% of the total trades and representing an increase of NT$78,278 million (or 63.15%) over the year 2015.

(IV) Bank Debentures

The Company’s bank debentures trading totaled to NT$273,210 million in 2016, a decrease of NT$4,547 million (or -1.64%) over the year 2015. Regarding trading types, the Repo trading amounted to NT$271,560 million, accounting for 99.40% of the total trades and representing a decrease of NT$797 million (or -0.29%) over the year 2015. The Outright purchases/sales amounted to NT$1,650 million, accounting for 0.60% of the total trades and representing a decrease of NT$3,750 million (or -69.44%) over the year 2015.

(V) Corporate Bonds

The Company’s corporate bonds trades totaled NT$1,458,613 million in 2016, a decrease of NT$328,540 million (or -18.38%) over the year 2015. In terms of trading types, the Repo trading amount was NT$1,422,963 million, accounting for 97.56% of the total trades and representing a decrease of NT$333,591 million (or -18.99%) over the year 2015. The Outright purchases/sales amount was NT$35,650 million, accounting for 2.44% of the total trades and representing an increase of NT$5,051 million (or 16.51%) over the year 2015.

(VI) Foreign Bonds

The Company’s foreign bonds trading total was RMB$6 million and US$5,015 million in 2016 , representing a decrease of RMB$102 million(or -94.44%) and an increase of US$4,723 million(or 1617.47%) in each respective bond over the year 2015.

IV. Budget Implementation, Financial Income and Expenditures, and Profitability Analysis

The 2016 net revenue was NT$2,312,495 thousand, a budget realization rate of 101.71%. Net interest income was NT$1,279,211 thousand, a budget realization rate of 111.18%. Commissions and fee revenues total was NT$923,114 thousand, a budget realization rate of 109.67%. Gain on financial assets and liabilities due to fair value adjustment within the net revenue was NT$78,728 thousand, a budget realization rate of 33.75%. Realized gain on available-for-sale financial assets was $11,038 thousand, a budget realization rate of 27.60%. Other net non-interest gain was NT$20,404 thousand, a budget realization rate of 255.05%. The net revenue exceeded the budget mainly due to the Company's aggressive expansion in bills underwriting and build positions in CB asset swap. In addition, as the market's capital cost remained low and the yielding spread continued to increase, both net interest revenues and commissions exceeded the budget. However, the equity trading fell behind the budget target due to the weakened global economic recovery.

In terms of cost, due to a reverse in 2016 of NT$184,790 thousand, the provision was 659.97% of the budget, resultant from bad debt covery and proper asset quality controls. The operating expenses were NT$497,284 thousand, accounting for 97.47% of the budget.

In terms of income, the net income before tax amounted to NT$2,000,001 thousand in 2016, a budget realization rate of 115.25%. The net income after tax was NT$1,633,518 thousand, or the equivalent of $1.22 earnings per share, which had a budget realization rate of 112.81%.

V. Research and Development

In supporting the draft amendment to the "Act Governing Bills Finance Business", the issuance of CPs in digital form will be the mode of operation in the future. The Company will positively respond to the cause to upgrade the efficiency and security of CP issuance with the reduction of labor cost.

Regarding in-house training and education, the Company invited not only scholars and specialists but also professionals from the industry to provide in-house and business related trainings on a regular basis. The Company also has encouraged employees to obtain certified financial qualifications and to sharpen their technical skills and job efficiencies by attending courses from Taiwan Academy of Banking and Finance (TABF) and other professional organizations. At the end of 2016 the Company has a total of 151 employees and has sent 3,279 headcounts for training (7,101 hours), or an average of 22 training (47.03 hours) per employee, annually.

Two. 2017 Business Plan Outline

I. Business Policy

- Increase the portion of third-party guarantee and non-guarantee underwriting.
- Enhance daily average outstanding balance on the self-guarantee.
- Expand the scale of available-for-sale bond portfolio.
- Select quality stocks and establish positions by bargain hunting.
- Nourish clients' relationship of secondary market through advertising.

II. Business Target

Operating targets of the main businesses in 2017 are based on domestic and foreign economic situation and industrial environment estimates:

- Daily average outstanding of guaranteed commercial papers issuance amounted to NT$95.5 billion.
- Annual average short-term bills underwriting and initial purchase amounted to NT$238.5 billion.
- Annual average repo trading amounted to NT$167.5 billion.
- Capital adequacy ratio was 12.5%.

III. Significant Operating Policy and Future Development Strategies

Please refer to Page 18~19 of this annual report for the long-term and short-term business development plan.

Three. The Impact from Competition, Regulation, and Macro- economics Environments

Economic performance of Taiwan in 2016 was mediocre albeit with a mild global economic recovery and low base effect. Economic recovery is expected to continue with momentum in 2017 worldwide. However, Brexit and the assumption of the US Presidency by Donald Trump will cause turbulence to the international financial market significantly with the resurgence of trade protectionism. The Black Swan is about to be active again that the newly emerging economies will bear the brunt. Domestic economic recovery is expected but the intensification of global financial market fluctuation, the magnitude of interest rate surge in the US, and other factors of uncertainty should not be overlooked. Financial institutions tend to find a way out for placing hot money, which has been abusively and pervasively affecting the economy. Keen competition in the domestic financial market is expected to go on.

The Company will further its effort in its core business and will work even harder in earnest to bolster risk management and efficiency of capital use so as to upgrade its competitive power and operation performance and mitigate the impact from the external environment. For information on the assessment of influence in various forms, refer to Page 16~17 of this report.

Four. The Updated Rating

Fitch Ratings, Ltd., Taiwan Branch affirmed on March 4, 2016 the Company’s ratings as follow: National long-term rating “A+(twn)”, National short-term rating “F1(twn)” and the long-term outlook“Stable” .

Last but not least, we look forward to your continued support and encouragement for CBF and its employees.

Sincerely yours,

Cheng-Ching Wu
Chairman

Chih-Ming Chien
President

II. Company and Business Profile

One. Company Profile

By the Corporation Law and the Regulations Governing Short Term Bills Dealers as promulgated by the Ministry of Finance (MOF), the Company was duly incorporated in October 1978 to assist the government in establishing a monetary market, helping businesses with short-term financing needs and facilitating the transactions of bills and bonds in the economy. The Company has operated since December 1, 1978, and listed on Taiwan Stock Exchange (TSE) since October 1994.

For more than 30 years, we have focused on corporate financing and fixed income commodities trading and have been the loyal partner for the developments of industrial and commercial enterprises. We will continue devoting ourselves to provide professional services to our client and creating the maximum value for our shareholders and employees.

The management of China Bills Finance Corporation is committed to "Appreciate, Cherish, and Excel." Our goal is to actively create more values for our customers, shareholders and employees, cherish what we already have and enhance operating effectiveness and perpetual growth.

CBF's management beliefs and core values are as follows:
Appreciate customers and business with gratitude
Cherish what we have
Excel through initiating innovation

We will strengthen knowledge management, increase business efficiency, create profitable value for customers, shareholders, and staff with the aims to create long-term leadership and market niche.

Two. Principal Activities

1.Certifying and underwriting Short-Term Bills;

2.Certifying and underwriting Bank Debentures;

3.Brokering and trading Short-Term Bills;

4.Brokering and trading Bank Debentures;

5.Brokering and trading Government Bonds;

6.Guaranteeing and endorsing Short-Term bills;

7.Providing financial consulting services to enterprises;

8.Dealing Inter-bank call loan;

9.Proprietary trading of Corporate Bonds;

10.Equity Investment;

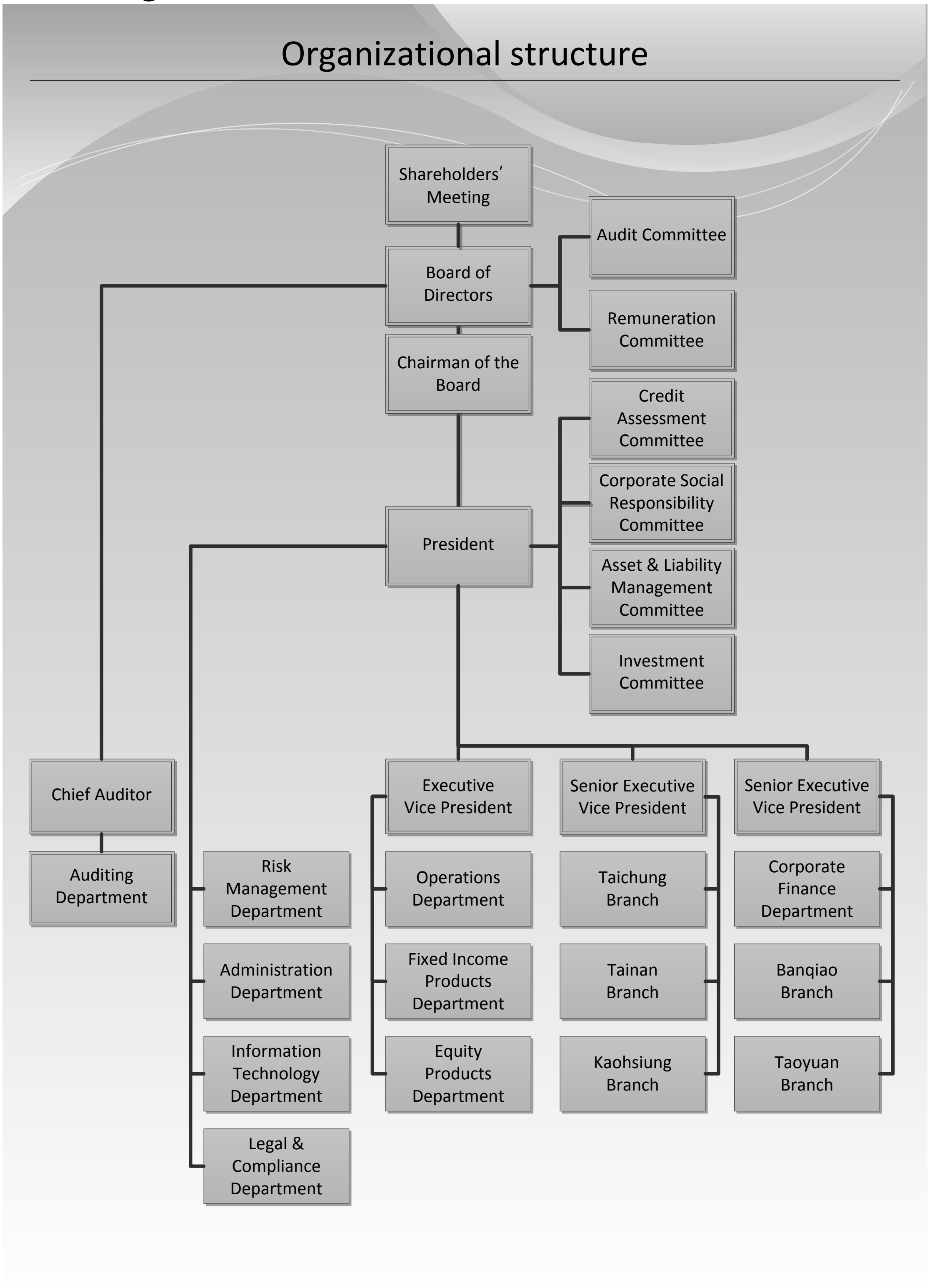
11.Fixed income securities trading;

12.Proprietary trading service of Foreign Bonds;

13.Investment of Foreign Currency Bonds;

14.Other business as authorized by the Competent Authority.

Three. Organizational Structure



Four. Board of Directors

Title	Name	Job Responsibilities
Chairman	Cheng-Ching Wu	Chairman of the Board , China Bills Finance Co., Ltd.
Directors	Chih-Ming Chien	President,China Bills Finance Co., Ltd.
	David C.C. Chang	Deputy President & Chief Operating Officer, O-Bank
	Jonathan C.H. Wei	Senior Executive Vice President & Chief Strategy Officer , O-Bank
	Tessie Y.H. Chen	Senior Executive Vice President & Chief Financial Markets Officer , O-Bank
	Roger Y.F. Lin	Deputy President & Chief Corporate Banking Officer , O-Bank
	MONA I-RU LO	Director, Ming Shan Investment Co., Ltd.
	Sekin Chen	Nil
Independent Directors	Herbert Chung	Supervisor,San Fu Chemical Co.,Ltd
	Hung-Mao Tien	Chairman,Straits Exchange Foundation President and Chairman of the Board, Institute for National Policy Research
	Wayne W. Wu	Secretary General ,The Business Council for Sustainable Development of Taiwan (BCSD-Taiwan)

Five. The Management Team

Title	Name	Full-time or Part-time
President	Chih-Ming Chien	Full-time
Senior Executive Vice President & Chief, Corporate Finance Department	Alex Tu	Full-time
Senior Executive Vice President (retiring on February 1, 2016)	Chang-Jung Hsiao	Full-time
Senior Executive Vice President & Chief, Kaohsiung Branch	Li-Fei Chiu	Full-time
Chief Auditor	Hsing-Pang Wang	Full-time
Executive Vice President, Fixed Income Products Department	Yi-Tien Chen	Full-time
Vice President,Equity Products Department	I-Chih Chou	Full-time
Vice President,Risk Management Department (resigned on February 1, 2017)	Hsiung-Jung Chen	Full-time
Vice President,Risk Management Department (assumed office on February 1, 2017)	Yi-Chang Kan	Full-time
Vice President,Operations Department	Chao-Ku Wang	Full-time
Vice President, Administration Department	Hou-Sheng Yu	Full-time
Vice President, Information Technology Department (transferred on January 18, 2017)	Su-Tzu Hsu	Full-time
Vice President, Information Technology Department (assumed office on January 18, 2017)	Hung-Ta Chou	Full-time
Vice President, Legal & Compliance Department	Chen-Cheng Hsieh	Full-time
Executive Vice President, Tainan Branch	Joe Chen	Full-time
Vice President, Taichung Branch	Wei-Min Cho	Full-time
Vice President, Taoyuan Branch	Jen-Chien Chen	Full-time
Vice President, Banqiao Branch	Chuan-Kuei Lin	Full-time

III. Operations Overview

One. 2016 Operation Overview

I. Each business assets and income as a proportion of total assets and income, and development and changes

1. Assets

Unit: NT$ Thousand	12/31/2016		12/31/2015		Comparison with 12/31/2015	
	Amount	As a proportion of total assets(%)	Amount	As a proportion of total assets(%)	Increase (Decrease)	%
Commerical papers	96,702,580	47.56	101,963,858	49.12	(5,261,278)	(5.16)
Bonds	102,738,428	50.53	102,386,506	49.32	351,922	0.34
Equity investment	273,504	0.13	664,921	0.32	(391,417)	(58.87)
Derivative financial products	211,644	0.10	272,806	0.13	(61,162)	(22.42)
Others	3,412,935	1.68	2,294,064	1.11	1,118,871	48.77
Total Assets	203,339,091	100.00	207,582,155	100.00	(4,243,064)	(2.04)

2. Revenue

Unit: NT$ Thousand	2016		2015		Comparison with 2015	
	Amount	As a proportion of total revenue(%)	Amount	As a proportion of total revenue(%)	Increase (Decrease)	%
Commercial papers	1,372,071	59.33	1,294,065	58.17	78,006	6.03
Bonds	1,030,596	44.57	835,522	37.56	195,074	23.35
Equity investment	21,309	0.92	125,514	5.64	(104,205)	(83.02)
Derivative financial products	(50,257)	(2.17)	29,629	1.32	(79,886)	(269.62)
Others	(61,224)	(2.65)	(60,058)	(2.69)	(1,166)	(1.94)
Total Revenue	2,312,495	100.00	2,224,672	100.00	87,823	3.95

II. Business Performance

1. Commercial Papers

(1) Primary Market-- Commercial Paper Certification and Underwriting

Unit: NT$ million	2016		2015		Comparison with 2015	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers (CP2)	1,590,183	85.79	1,451,793	85.98	138,390	9.53
Commercial papers (CP1)	208	0.01	182	0.01	26	14.29
Bank's acceptance bill	1	0.00	0	0.00	1	100.00
Bank negotiable certificates of deposit	262,600	14.17	236,604	14.01	25,996	10.99
Municipal Treasury Bills	500	0.03	0	-	500	100.00
Total	1,853,492	100.00	1,688,579	100.00	164,913	9.77

(2) Secondary Market Transactions

Unit: NT$ million	2016		2015		Comparison with 2015	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers	4,101,024	92.92	4,087,836	91.24	13,188	0.32
Bank negotiable certificates of deposit	298,297	6.76	392,408	8.76	(94,111)	(23.98)
Municipal Treasury Bills	14,115	0.32	0	-	14,115	100.00
Total	4,413,436	100.00	4,480,244	100.00	(66,808)	(1.49)

(3) Foreign Bills- Primary and Secondary Market

Unit: USD million	2016		2015		Comparison with 2015	
	Amount	%	Amount	%	Increase (decrease)	%
Primary market underwriting and the first purchases	0	-	211	50.12	(211)	(100.00)
Secondary market transactions	35	100.00	210	49.88	(175)	(83.33)
Total	35	100.00	421	100.00	(386)	(91.69)

2.Bonds

(1)Government Bonds

Unit: NT$ million	2016		2015		Comparison with 2015	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	1,145,798	85.00	1,279,021	91.16	(133,223)	(10.42)
Outright purchases/sales	202,231	15.00	123,953	8.84	78,278	63.15
Total	1,348,029	100.00	1,402,974	100.00	(54,945)	(3.92)

(2) Bank Debentures

Unit: NT$ million	2016 Amount	2016 %	2015 Amount	2015 %	Comparison with 2015 Increase (decrease)	Comparison with 2015 %
Repo trading	271,560	99.40	272,357	98.06	(797)	(0.29)
Outright purchases/sales	1,650	0.60	5,400	1.94	(3,750)	(69.44)
Total	273,210	100.00	277,757	100.00	(4,547)	(1.64)

(3) Corporate Bonds

Unit: NT$ million	2016 Amount	2016 %	2015 Amount	2015 %	Comparison with 2015 Increase (decrease)	Comparison with 2015 %
Repo trading	1,422,963	97.56	1,756,554	98.29	(333,591)	(18.99)
Outright purchases/sales	35,650	2.44	30,599	1.71	5,051	16.51
Total	1,458,613	100.00	1,787,153	100.00	(328,540)	(18.38)

(4) Foreign Bonds

A. RMB Bonds

Unit: RMB million	2016 Amount	2016 %	2015 Amount	2015 %	Comparison with 2015 Increase (decrease)	Comparison with 2015 %
Repo trading	6	100.00	98	90.74	(92)	(93.88)
Outright purchases/sales	0	0.00	10	9.26	(10)	(100.00)
Total	6	100.00	108	100.00	(102)	(94.44)

B. USD Bonds

Unit: USD million	2016 Amount	2016 %	2015 Amount	2015 %	Comparison with 2014 Increase (decrease)	Comparison with 2014 %
Repo trading	4,677	93.26	236	80.82	4,441	1,881.78
Outright purchases/sales	338	6.74	56	19.18	282	503.57
Total	5,015	100.00	292	100.00	4,723	1,617.47

3. Equity Investment

Unit: NT$ thousand	2016 market value	2016 %	2015 market value	2015 %	Comparison with 2015 Increase (decrease)	Comparison with 2015 %
stock	240,022	91.41	477,703	83.04	(237,681)	(49.75)
Beneficiary certificate	22,554	8.59	97,559	16.96	(75,005)	(76.88)
Total	262,576	100.00	575,262	100.00	(312,686)	(54.36)

4. Guarantee Business

Unit: NT$ million	2016		2015		Comparison with 2015	
	Amount	%	Amount	%	Increase (decrease)	%
Balance of guarantees secured	46,105	47.63	38,844	44.74	7,261	18.69
unsecured	50,692	52.37	47,987	55.26	2,705	5.64
Total	96,797	100.00	86,831	100.00	9,966	11.48
Endorsement securities	-	-	-	-	-	-

Two. 2016 Operating Plan

I. Commercial Papers

1. Actively seek underwriting businesses of bills from reputable private and public sectors. Purchase bank issued NCDs to expand the source of bills and maintain the market leader position.
2. Enhance the operation in FRCP and UCCP and seek the opportunity for joint underwriting to stabilize the sources of bills and improve the interest spread. Engage in UCCP business in due time to reduce interest risks.
3. Fortify the channels for the circulation of non-guaranted bills and intensify the operation of bills by trade volume to upgrade the performance of capital use.
4. Expand trade channels so as to diversify risk and access to stable and low cost capital.

II. Bonds

1. Strengthen the fundamental analysis of economy and commodity price, gauge the interest rate trend, and improve operating performance.
2. Master those key central banks' monetary policies and analyze the impact of monetary policies on capital costs.
3. Enhance the maintenance of customer relationship to create a good margin of profit from the trade matching.
4. Pay close attention to global political and economic changes for the proper adjustment of the position of FRNs to reduce interest risk and improve the sources of profit from the bonds.
5. Strengthen the training of employees to upgrade their capacity in market research and technical analysis.
6. Make further effort in the development of financing channels to upgrade the proportion of R/P foreign bonds to reduce liquidity risks inherent to foreign currencies.

III. Equity Investment

1 Keep abreast of the trend of international political and economic development for judgment of market trend and selection of industries and individual stocks.
2 Discussion on industrial trends and basic analysis of individual stocks as a reference for pricing in selling and buying.
3 Actively interact with major domestic security brokerage firms and seek the resources of asset swap target.
4 Effectively control credit risk and carefully select asset swap targets.

IV. Guarantee Business

1. Strictly control credit risk and ensure that claims are the top priority for guarantee business.
2. Carefully control guarantee business for real estate since the risk in real estate markets has increased due to uncertain future.
3. Encourage quality customers to increase the utilization of the granted credit to secure the sources of income from guaranteed fees.
4. Explore new cases and syndicated loans to replace existing clientele with low profit margin.
5. Continue conducting information system integration and simplification to strengthen the efficiency of credit management.

Three. Market Analysis

I. Business Area

As of the end of 2016, the Company headquarters in Taipei and has five other branches located in Banqiao, Taoyuan, Taichung, Tainan, and Kaohsiung. Our business covers customers throughout the entire domestic market.

II. Future Market Supply and Demand

1. Commercial Papers

Short-term interest rates stopped further declines since the Central Bank ordered the halting of further interest rate cuts in Q3 2016. Accordingly, the cost of bill issuance by enterprises has been on the rise incrementally since then. Yet, the diversification of financing channels accessible to the enterprises are still functioning as usual. Under the needs for working capital by enterprises, it is expected that the issuing volume and market size will enjoy marginal growth.

The global political and economic situation has been unpredictable for some time, which has caused increasing uncertainty to the financial market.

The liquidity of money market instruments is good and has attracted enterprises in the private sector to park their idle capital. In addition, this also satisfied the needs of banks, life insurance companies and investment trust firms in asset allocation and liquidity reserve. It is expected that the trade volume and market size will pick up momentum gradually.

2. Bond business

In 2017, bond issuance is expected to reduce in scale. At the encouragement of the competent authority for overseas enterprises to raise capital in Taiwan, deregulation of securities dealers in proprietary trading of foreign securities, and the investment of international bonds by life insurance companies without the restriction of an upper limit in overseas investment, there are far more targets for the financial sector to invest in and a diversity of channels is available for the circulation of capital.

Currently, the major buyers of bonds are the life insurance companies, Chunghwa Postal and Saving Bank for meeting their terminal needs. Other buyers are mostly for asset allocation. For the securities dealers and bills finance firms, bond is for yielding and trading. The Central Bank of Taiwan is still in pursuit of a laxed monetary policy that the financial institutions still have the needs of stockpiling of bonds.

3. Equity Investment

The stock market in 2017 will be under the pressure of the upward interest adjustment in the USA and the Trump policy. The market looks positive in the short run, but global economic recovery in the latter half of the year may not be as strong as expected and the market will be volatile. Caution is advised with utmost attention to the risk.

4. Guarantee Business

The Central Bank has cut the interest rate 4 times from 2015 to the end of 2016 that made the interest rate second lowest on record. Free capital is still flowing in the market in 2017 while the price competition among financial institutions is still acute. There is no sign of recovery, so the Company adopts the conservative policy with sustainability as the core strategy in guarantee business. Customers with low return will be replaced by new business and syndicated loans for stable sources of profit. At the same time, the quality and quantity of loans could be improved with better spread.

Four. Long-term and Short-term Business Development Plan

I. Short-term Business Development Plan

1. Commerical Papers

(1) Adjust bills portfolio and duration based on the capital market status to reduce liquidity risk and increase the profits of bills.
(2) Increase the trade ratio of non-financial institution clients in the secondary market, adjust the structure of the underwriting customers, reduce capital costs, and expand sources of funds.
(3) Continue to establish the FRCP and UCCP positions and seek business opportunities of synticated underwriting.

2. Bonds

(1) Control the portfolio of bond yielding and DV01 and avoid assuming too much interest rate risk when interest rates are relatively low.
(2) In response to the increasing interest risk, the Company will establish positions of FRNs.

3. Equity Investment

(1) Keep abreast of the trend of the industry from upstream to downstream, take cautious selection of individual stocks, and exercise teamwork.
(2) Study individual stocks in-depth and keep abreast of the trends of profiting to the companies.

4. Guarantee Business

(1) Improve self-guaranteed credit renewal ratio and stabilize the sources of income from handling fees.
(2) Simultaneously develop new clients and grant additional quota to existing quality clients.
(3) Carefully select the liquidity of collaterals and take into account income and guarantee.
(4) Direct the arrangement of syndicated loans through the advantage of interest rate.

II. Long-term Business Development Plan

1. Commercial Papers and Bonds

(1) Strictly control risk and flexibly adjust financial assets and liabilities operational direction and hedging strategies in response to the

significant changes in the economy.
(2) Study new kinds of interest rate businesses and actively seek opportunities to participate in the market in response to the open policy of the competent authorities.
(3) Strengthen employees' multi-trading technical skills and become a professional trader in the fixed-income products market.

2. Equity Investment

(1) Help researchers to accumulate their capabilities to select stocks and enhance their abilities to master the trend of individual stock so they can select ideal stocks among various choices.
(2) Integrate research result into operation to ensure the investment team has prolonged and steady investment profits.

3. Guarantee Business

(1) Segment target customers and develop potential clients to broaden the depth and width of the Company's clientele.
(2) Reduce non-productive management costs and improve ROA through customer restructuring.
(3) Continue to improve the quality of credit assets and obtain excess escrow reserve to provide the foundation of future business promotion.
(4) Train a vast amount of new employees in credit business to strengthen the marketing force.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Bills Finance Corporation

Opinion

We have audited the accompanying financial statements of China Bills Finance Corporation (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Bills Finance Firms, Regulations Governing the Preparation of Financial Reports by Securities Firms and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accuracy of Interest Revenue on Bonds Classified as Available-for-Sale

Description:

Please refer to Notes 4 and 22 for relevant information on interest revenues. Interest revenue on bonds is recognized using the effective interest rate method. For the year ended December 31, 2016, the Company's interest revenue on bonds was $1,206,612 thousand, 61% of total interest revenue, in which the Company's interest revenue on bonds classified as available-for-sale was $1,188,179 thousand, 98% of total interest revenue on bonds. Interest revenue on bonds classified as available-for-sale was material to the financial statements. Completeness of the bonds' principal and accuracy of the interest rate and bond period will affect the accuracy of the calculation of interest revenue. Therefore, the accuracy of interest revenue on bonds classified as available-for-sale is deemed to be a key audit matter.

Our response to this key audit matter:

- We evaluated the design and implementation of controls for monitoring completeness and accuracy of interest revenue on bonds classified as available-for-sale and key controls over calculation of interest revenue on bonds classified as available-for-sale.

- We checked that the balance of bonds classified as available-for-sale on the balance sheet agreed with the principal of bonds shown on the interest revenues calculation report to confirm the completeness of the principle of bonds classified as available-for-sale.

- We recalculated the interest rate by using calculator on Taipei Exchange website to confirm the accuracy of interest rate on bonds classified as available-for-sale.

- We recalculated the bond period and the amount of interest receivable to confirm the accuracy of interest revenue on bonds classified as available-for-sale.

Assessment of Reserve for Guarantee Liabilities

Description:

Please refer to Notes 4, 5 and 32 for relevant information on the assessment of reserve for guarantee liabilities. When deciding whether to assess the adequacy for reserve of guarantee liabilities, the Management focus on if the reserve of guarantee liabilities was likely to occur and the possible cash inflow that may arise after the resulting guaranty obligation. The management also performs evaluation and classification of credit assets and reserve for guarantee liabilities set aside by a bills finance company in accordance with the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt". The evaluation process is inherently judgmental, and the evaluation and classification of credit assets will affect the amount of the reserve for guarantee liabilities; therefore, we consider reserve for guarantee liabilities as a key audit matter.

Our response to this key audit matter:

- We documented and assessed the design and implementation of controls in place for the Company's assessment of adequacy of reserve for guarantee liabilities.

- We evaluated the completeness of the balance of commercial paper exposed to guarantee liabilities to the provision for loss on guarantee as shown on the loss reserves evaluation report.

- We reviewed the management's calculation of the value of collateral of specific impairment of credit assets and we also checked the collateral was categorized properly on the loss reserves evaluation report.

- We recalculated the amount of reserve for guarantee liabilities shown on the provision for loss reserves evaluation report to confirm the mathematical accuracy of provision for loss reserves.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Bills Finance Firms, Regulations Governing the Preparation of Financial Reports by Securities Firms and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Chan Huang and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 21, 2017

<u>Notice to Readers</u>

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-languag independent auditors' report and financial statements shall prevail.

CHINA BILLS FINANCE CORPORATION

BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 334,499	-	$ 294,198	-
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	1,023,091	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 31)	107,982,899	53	116,358,172	56
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 9 and 30)	200,092	-	4,100,000	2
RECEIVABLES, NET (Notes 4, 5 and 10)	1,276,545	1	1,221,950	1
CURRENT TAX ASSETS (Notes 4 and 28)	119,050	-	155,041	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4, 5 and 11)	90,637,886	45	83,810,345	40
OTHER FINANCIAL ASSETS, NET (Notes 4, 5 and 12)	177,924	-	178,805	-
PROPERTY AND EQUIPMENT, NET (Notes 4 and 13)	157,643	-	157,921	-
DEFERRED TAX ASSETS (Notes 4 and 28)	105,326	-	113,228	-
OTHER ASSETS, NET (Notes 4, 14 and 31)	1,324,136	1	1,192,495	1
TOTAL	$ 203,339,091	100	$ 207,582,155	100
LIABILITIES AND EQUITY				
CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS (Note 15)	$ 14,822,790	7	$ 11,010,000	5
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	27,883	-	7,284	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 16 and 30)	161,213,032	79	171,238,096	82
ACCOUNTS PAYABLE (Notes 4 and 17)	689,356	1	1,381,783	1
COMMERCIAL PAPER ISSUED, NET (Note 18)	2,499,824	1	-	-
PROVISIONS (Notes 4, 5 and 19)	1,530,697	1	1,469,907	1
DEFERRED TAX LIABILITIES (Notes 4 and 28)	5,645	-	13,970	-
OTHER LIABILITIES	112,806	-	75,778	-
Total liabilities	180,902,033	89	185,196,818	89
EQUITY (Notes 4 and 21)				
Ordinary share capital	13,429,600	7	13,429,600	7
Capital surplus	2,474	-	2,474	-
Retained earnings				
Legal reserve	6,388,388	3	5,908,315	3
Special reserve	769,120	-	769,120	-
Unappropriated earnings	1,623,851	1	1,600,243	1
Total retained earnings	8,781,359	4	8,277,678	4
Other equity	223,625	-	675,585	-
Total equity	22,437,058	11	22,385,337	11
TOTAL	$ 203,339,091	100	$ 207,582,155	100

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
NET INTEREST				
Interest revenues (Notes 4 and 22)	$ 1,962,670	85	$ 1,981,815	89
Deduct: Interest expenses (Notes 4, 22 and 30)	(683,459)	(30)	(901,156)	(40)
Net interest	1,279,211	55	1,080,659	49
NET REVENUES OTHER THAN INTEREST				
Commissions and fee revenues, net (Notes 4, 23 and 30)	923,114	40	802,463	36
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 8, 24 and 30)	78,728	3	231,342	10
Realized gain on available-for-sale financial assets (Notes 4, 21 and 25)	11,038	1	87,761	4
Foreign exchange gain, net (Note 4)	6,710	-	8,955	-
Impairment loss recognize on financial assets measured at cost, net (Notes 4 and 12)	(884)	-	-	-
Other non-interest gain, net (Note 4)	14,578	1	13,492	1
TOTAL NET REVENUES	2,312,495	100	2,224,672	100
PROVISIONS (Notes 4 and 10)	184,790	8	180,401	8
OPERATING EXPENSES (Notes 20, 26, 27 and 30)				
Personnel expenses	(349,737)	(15)	(351,032)	(16)
Depreciation and amortization	(9,829)	(1)	(11,953)	-
Others	(137,718)	(6)	(124,824)	(6)
Total operating expenses	(497,284)	(22)	(487,809)	(22)
INCOME BEFORE INCOME TAX	2,000,001	86	1,917,264	86
INCOME TAX EXPENSE (Notes 4 and 28)	(366,483)	(16)	(307,568)	(14)
NET INCOME FOR THE YEAR	1,633,518	70	1,609,696	72
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4, 5 and 20)	(18,290)	(1)	(15,226)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4, 20 and 28)	3,110	-	2,589	-
	(15,180)	(1)	(12,637)	-

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain on available-for-sale financial assets (Notes 4 and 21)	$ (451,960)	(19)	$ 288,178	13
Other comprehensive income for the year, net of income tax	(467,140)	(20)	275,541	13
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,166,378	50	$ 1,885,237	85
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 29)				
Basic	$1.22		$1.20	

(Concluded)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	Ordinary Share Capital (Notes 4 and 21)	Capital Surplus (Notes 4 and 21)	Retained Earnings (Notes 4 and 21)			Unrealized Gain (Loss) on Available-for-sale Financial Assets (Notes 4 and 21)	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2015	$ 13,429,600	$ 2,474	$ 5,492,712	$ 769,120	$ 1,385,718	$ 387,407	$ 21,467,031
Legal reserve	-	-	415,603	-	(415,603)	-	-
Cash dividends distributed	-	-	-	-	(966,931)	-	(966,931)
Net income for the year ended December 31, 2015	-	-	-	-	1,609,696	-	1,609,696
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(12,637)	288,178	275,541
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	1,597,059	288,178	1,885,237
BALANCE AT DECEMBER 31, 2015	13,429,600	2,474	5,908,315	769,120	1,600,243	675,585	22,385,337
Legal reserve	-	-	480,073	-	(480,073)	-	-
Cash dividends distributed	-	-	-	-	(1,114,657)	-	(1,114,657)
Net income for the year ended December 31, 2016	-	-	-	-	1,633,518	-	1,633,518
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(15,180)	(451,960)	(467,140)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	1,618,338	(451,960)	1,166,378
BALANCE AT DECEMBER 31, 2016	$ 13,429,600	$ 2,474	$ 6,388,388	$ 769,120	$ 1,623,851	$ 223,625	$ 22,437,058

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,000,001	$ 1,917,264
Adjustments for:		
Recognition of provisions and bad-debt expenses	42,500	15,000
Net gain on valuation of financial assets and liabilities at fair value through profit or loss	80,420	(61,968)
Depreciation expenses	7,341	7,967
Amortization expenses	2,488	3,986
Interest revenues	(1,962,670)	(1,981,815)
Interest expenses	683,459	901,156
Impairment loss recognize on financial assets measured at cost, net	884	-
Loss on disposal of property and equipment	71	468
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	8,315,461	(22,701,522)
Decrease (increase) in securities purchased under resell agreements	3,899,908	(2,349,261)
Decrease (increase) in interest and bond receivables	32,387	(41,994)
Increase in available-for-sale financial assets	(7,280,270)	(12,174,317)
Decrease in held-to-maturity financial assets	-	385,208
Increase in other financial assets	(3)	(7)
Decrease (increase) in other assets	16,478	(13,615)
Decrease (increase) in financial liabilities at fair value through profit or loss	-	(151,166)
(Decrease) increase in securities sold under repurchase agreements	(10,025,064)	37,105,093
(Decrease) increase in accounts payable	(696,306)	995,790
Increase (decrease) in other liabilities	37,028	(8,157)
Interest received	1,875,688	1,805,634
Interest paid	(679,756)	(900,809)
Income tax paid	(327,805)	(280,098)
Net cash (used in) generated from operating activities	(3,977,760)	2,472,837
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other assets	(149,847)	(271,138)
Payments for property and equipment	(7,247)	(3,034)
Proceeds from disposal of property and equipment	113	45
Net cash used in investing activities	(156,981)	(274,127)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in call loans from banks and overdrafts on banks	3,812,790	(1,230,000)
Increase in commercial paper payable	2,500,000	-
Dividends paid	(1,114,657)	(966,931)
Net cash generated from (used in) financing activities	5,198,133	(2,196,931)

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 1,063,392	$ 1,779
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	294,198	292,419
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,357,590	$ 294,198

Reconciliation of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets at December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents in balance sheets	$ 334,499	$ 294,198
Due from the Central Bank and call loans to banks	1,023,091	-
Cash and cash equivalents in statements of cash flow	$ 1,357,590	$ 294,198

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(Concluded)

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