China Airlines, Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors’ Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

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March 30, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
China Airlines, Ltd.

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the consolidated financial statements of the Group are stated below:

Deferred Income Tax Assets

Due to suffering tax losses in previous years, the Group was granted loss carryforwards which can be used against taxable income in a certain period. The Group recognized the loss carryforwards as deferred tax assets to the extent that the taxable profit in the future will be available against the loss carryforwards. As of December 31, 2016, the Group recognized tax losses as deferred tax assets, in New Taiwan dollars (NT$), in the amount of NT$2,380,873 thousand. Refer to Notes 4, 5 and 29 in the accompanying consolidated financial statement for the related detailed information.

The difference between the amount representative of the Group's financial position and its tax base are material to the consolidated financial statements as a whole in the aviation industry. Moreover, deferred tax assets arising from tax losses are dependent on future taxable income and the reversal of existing taxable temporary differences, which involve management's judgment when assessing the realization of tax losses. As there is a significant level of judgment involved in valuing the deferred tax assets, we have deemed this to be a key audit matter.

The following are the main audit procedures for the key audit matter mentioned above:

1. Acquiring the internal financial forecasts and the estimate of future taxable income, and reviewing the rationality of management's assumptions.

2. Acquiring information about the differences between the Group's financial position and its tax base, and assessing the rationality of reconciliations and the realization schedule of temporary differences to verify whether they are consistent with management's financial forecasts.

Non-current Assets Held for Sale

The board of directors of the Group resolved to dispose of several aircrafts. According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", impairment losses from the disposal of aircrafts were recognized as the differences between the expected transaction value and the carrying amount of the aircrafts, and then the aircrafts were reclassified as non-current assets held for sale. As of December 31, 2016, the carrying amount of the non-current assets held for sale was NT$185,100 thousand. Refer to Notes 4, 5 and 13 in the accompanying consolidated financial statements for the related detailed information.

Due to the lack of an open trading market for aircrafts, prices for the disposal of aircrafts varies significantly, and the expected transaction value of aircrafts reflecting the carrying amount of non-current assets held for sale was difficult to evaluate. Therefore, we identified non-current assets held for sale as a key audit matter.

The following were the main audit procedures for the key audit matter mentioned above:

1. Conducting an assessment on the transaction value based on industry-recognized publications, historical selling prices of similar aircraft models, and the suggested price proposed by a broker and observing the subsequent transactions.

2. Discussing the retirement schedule with the accountable department, and reviewing whether the correspondences and the latest quote were consistent with the market value claimed by management.

Acquisition Costs of a New Fleet

In accordance with IAS 16 “Property, Plant and Equipment”, acquisition costs of aircrafts should be allocated into several significant components, including airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and should be depreciated over different useful lives. As of December 31, 2016, the carrying amount of flight equipment was NT$112,368,971 thousand. Refer to Notes 4, 5, and 16 in the accompanying consolidated financial statements for the related detailed information.

Since the Group introduced a brand new fleet of A350-900s this year, the allocation base should be adjusted. Moreover, the carrying amount related to the aircrafts and the amount of depreciation expense recognized would be subject to the allocation of acquisition costs and the applied useful life, which were made in accordance with management’s judgment. Therefore, we identified the acquisition costs of the new fleet as a key audit matter.

The following were the main audit procedures for the key audit matter mentioned above:

1. Reviewing the certificates issued by the aircraft and engine manufacturers, the suggested operating cost of the aircraft manufacturer, and the historical experience of the maintenance department to assess the rationale used to determine the division amount by management.

2. Conducting an assessment on the rationality of useful life on the basis of fleet performance in the industry, historical experience of fleet operations, and documents that described the basis used by management to determine the useful life of its new fleet.

Other Matter

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee and supervisors, are responsible for overseeing the Group’s financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the 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 consolidated financial statements.

As part of an audit in accordance with the 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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 Chen-Hsin Yang and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 30, 2017

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally applied in the Republic of China.

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 19 and 32)	$ 24,267,197	11	$ 23,491,085	11
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	416,641	-	542,326	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)	58,449	-	52,582	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 11 and 32)	8,353,785	4	7,610,677	3
Notes and accounts - related parties (Notes 32 and 33)	3,562	-	3,874	-
Other receivables (Notes 4 and 32)	952,320	-	1,032,622	1
Current tax assets (Notes 4 and 29)	28,259	-	9,849	-
Inventories, net (Notes 4 and 12)	8,434,386	4	8,300,398	4
Noncurrent assets held for sale (Notes 4, 5 and 13)	185,100	-	670,455	-
Other assets - current (Notes 6 and 19)	4,638,502	2	3,928,747	2
Total current assets	47,338,201	21	45,642,615	21
NONCURRENT ASSETS				
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	-	-	1,710	-
Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 32)	-	-	19,080	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 32)	3,268	-	11,216	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 10 and 32)	140,357	-	223,911	-
Investments accounted for by the equity method (Notes 4 and 15)	2,866,431	1	2,877,777	1
Property, plant and equipment (Notes 4, 5, 16 and 34)	140,136,737	62	129,628,866	58
Investment properties (Notes 4 and 17)	2,075,903	1	2,076,182	1
Other intangible assets (Notes 4 and 18)	1,137,115	1	1,009,678	1
Deferred income tax asset (Notes 4, 5 and 29)	6,256,665	3	7,188,415	3
Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)	24,546,082	11	33,246,859	15
Total noncurrent assets	177,162,558	79	176,283,694	79
TOTAL	$ 224,500,759	100	$ 221,926,309	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 20)	$ 135,000	-	$ 173,289	-
Short-term bills payable (Note 20)	900,000	-	9,995	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)	20,854	-	313,689	-
Notes and accounts payable (Note 32)	869,712	-	1,229,575	1
Notes and accounts payable - related parties (Notes 32 and 33)	555,829	-	493,754	-
Other payables (Notes 23 and 28)	11,465,254	5	12,296,548	5
Current tax liabilities (Notes 4 and 29)	48,687	-	75,645	-
Provisions - current (Notes 4, 5 and 25)	81,925	-	20,186	-
Deferred revenue - current (Notes 4, 5 and 24)	14,820,860	7	13,112,086	6
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32)	2,700,000	1	4,944,106	2
Loans and debts - current portion (Notes 20, 32 and 34)	32,268,540	14	30,092,112	14
Capital lease obligations - current portion (Notes 4, 22, 32 and 34)	1,284,001	1	1,457,957	1
Other current liabilities (Note 32)	3,455,062	2	4,001,510	2
Total current liabilities	68,605,724	30	68,220,452	31
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)	2,775	-	11,291	-
Bonds payable - noncurrent (Notes 4, 21, 27 and 32)	19,538,044	9	10,900,000	5
Loans and debts - noncurrent (Notes 20, 32 and 34)	56,962,187	25	57,691,505	26
Provisions - noncurrent (Notes 4, 5 and 25)	7,408,229	3	6,167,295	3
Deferred tax liabilities (Notes 4 and 29)	273,610	-	340,681	-
Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)	3,645,304	2	5,197,147	2
Deferred revenue - noncurrent (Notes 4, 5 and 24)	1,808,903	1	1,863,929	1
Accrued pension costs (Notes 4, 5 and 26)	7,956,835	4	10,553,574	5
Other noncurrent liabilities (Note 32)	431,950	-	423,892	-
Total noncurrent liabilities	98,027,837	44	93,149,314	42
Total liabilities	166,633,561	74	161,369,766	73
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)				
Share capital	54,708,901	25	54,708,901	25
Capital surplus	799,932	-	798,415	-
Retained earnings				
Legal reserve	287,224	-	-	-
Special reserve	76,486	-	-	-
Unappropriated retained earnings (accumulated deficit)	(157,618)	-	2,872,235	1
Total retained earnings	206,092	-	2,872,235	1
Other equity	112,264	-	(66,283)	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	55,783,817	25	58,269,896	26
NON-CONTROLLING INTERESTS (Note 27)	2,083,381	1	2,286,647	1
Total equity	57,867,198	26	60,556,543	27
TOTAL	$ 224,500,759	100	$ 221,926,309	100

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 4, 28 and 33)	$ 141,079,107	100	$ 145,056,217	100
COSTS (Notes 4, 9, 12, 26, 28 and 33)	123,073,201	87	124,787,843	86
GROSS PROFIT	18,005,906	13	20,268,374	14
OPERATING EXPENSES (Notes 4, 26 and 28)	13,441,219	10	12,139,177	8
OPERATING PROFIT	4,564,687	3	8,129,197	6
NONOPERATING INCOME AND LOSS				
Other income (Notes 4, 10 and 28)	759,139	1	3,231,179	2
Other gains and losses (Notes 9, 13, 16 and 28)	(2,688,096)	(2)	(2,957,838)	(2)
Finance cost (Notes 9 and 28)	(1,292,865)	(1)	(1,783,793)	(1)
Share of the profit of associates and joint ventures (Note 15)	536,986	-	516,140	-
Total nonoperating income and loss	(2,684,836)	(2)	(994,312)	(1)
PRETAX PROFIT	1,879,851	1	7,134,885	5
INCOME TAX EXPENSE (Notes 4, 5 and 29)	1,168,911	1	1,208,675	1
NET INCOME	710,940	-	5,926,210	4
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 26)	(940,795)	-	(676,833)	-
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 27)	(66,815)	-	(4,428)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 29)	159,935	-	115,062	-
	(847,675)	-	(566,199)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 27)	(112,092)	-	67,515	-

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 27)	$ -	-	$ (6,393)	-
Cash flow hedges (Notes 4 and 27)	312,094	-	2,148,353	1
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 27)	(41)	-	765	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	(33,955)	-	(374,281)	-
	166,006	-	1,835,959	1
Other comprehensive income (loss) for the year, net of income tax	(681,669)	-	1,269,760	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 29,271	-	$ 7,195,970	5
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 571,540	-	$ 5,763,714	4
Non-controlling interests	139,400	-	162,496	-
	$ 710,940	-	$ 5,926,210	4
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 26,103	-	$ 7,072,042	5
Non-controlling interests	3,168	-	123,928	-
	$ 29,271	-	$ 7,195,970	5
EARNING PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	$ 0.10		$ 1.06	
Diluted	$ 0.10		$ 1.06	

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company											
			Retained Earnings			Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2015	$ 52,491,666	$ 1,992,415	$ -	$ -	$ (3,870,736)	$ 99,852	$ 4,015	$ (2,009,565)	$ (43,372)	$ 48,664,275	$ 2,321,737	$ 50,986,012
Compensation of deficit - capital surplus	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-	-	-
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	64	-	-	-	-	-	-	-	64	-	64
Convertible bonds converted to common shares	2,217,235	317,889	-	-	-	-	-	-	-	2,535,124	-	2,535,124
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(1,609)	-	-	-	-	(1,609)	(1,965)	(3,574)
Net income for the year ended December 31, 2015	-	-	-	-	5,763,714	-	-	-	-	5,763,714	162,496	5,926,210
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(531,087)	58,107	(2,260)	1,783,568	-	1,308,328	(38,568)	1,269,760
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	1,783,568	-	7,072,042	123,928	7,195,970
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(157,053)	(157,053)
BALANCE AT DECEMBER 31, 2015	54,708,901	798,415	-	-	2,872,235	157,959	1,755	(225,997)	(43,372)	58,269,896	2,286,647	60,556,543
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)	(4,548)	(8,084)
Appropriation of 2015 the earning												
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-	-	-
Cash dividends - $0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540	139,400	710,940
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)	(136,232)	(681,669)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103	3,168	29,271
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(201,886)	(201,886)
BALANCE AT DECEMBER 31, 2016	$ 54,708,901	$ 799,932	$ 287,224	$ 76,486	$ (157,618)	$ 78,564	$ 1,714	$ 31,986	$ (43,372)	$ 55,783,817	$ 2,083,381	$ 57,867,198

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED 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	$ 1,879,851	$ 7,134,885
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	17,545,523	17,261,774
Amortization expenses	147,486	70,040
Bad-debt expense	83,657	49,458
Net loss (gain) on fair value change of financial assets and liabilities held for trading	35,678	(150,871)
Interest income	(242,801)	(466,923)
Dividend income	(59,099)	(1,884,052)
Share of profit of associates and joint ventures	(536,986)	(516,140)
Loss on disposal of financial assets measured at cost	346	-
Gain on disposal of property, plant and equipment and noncurrent assests held foe sale	(53,419)	(13,155)
Impairment loss recognized on available-for-sale financial assets	19,005	3,408
Impairment loss recognized on property, plant, equipment and noncurrent assets held for sale	1,065,626	2,468,372
Loss on inventories and property, plant and equipment	207,019	389,274
Impairment loss recognized on financial assets carried at cost	71,826	-
Net loss (gain) on foreign currency exchange	(3,855)	487,075
Finance costs	1,292,865	1,783,793
Recognition of provisions	2,613,011	2,079,169
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Loss on repurchase of bonds payable	41,943	-
Changes in operating assets and liabilities		
Decrease (increase) in financial assets held for trading	91,729	(157,350)
Decrease on derivate financial assets for hedging	13,096	-
Decrease (increase) in notes and accounts receivable	(731,012)	1,770,746
Increase in other receivables	(15,595)	(205,127)
Increase in inventories	(358,861)	(1,248,012)
Increase in other current assets	(293,137)	(1,252,816)
(Decrease) increase in notes and accounts payable	(514,807)	828,156
(Decrease) increase in other payables	(1,166,447)	569,765
Increase in deferred revenue	1,651,689	2,006,907
Decrease in provisions	(1,393,565)	(237,716)
Increase in other current liabilities	399,500	512,938
Decrease in accrued pension liabilities	(3,532,023)	(296,385)
Increase (decrease) in other liabilities	22,045	(14,555)
Cash generated from operations	18,265,776	30,958,146
Interest received	239,461	487,009
Dividends received	513,203	2,382,066
Interest paid	(1,195,427)	(1,797,212)
Income tax paid	(186,641)	(239,316)
Net cash generated from operating activities	17,636,372	31,790,693

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	$ 63	$ -
Proceeds on share redemption of financial assets measured at cost	-	245,242
Proceeds of the sale of financial assets measured at cost	5,579	-
Payments to acquire financial assets for hedging	-	(13,096)
Acquisition of associates	-	(64,091)
Proceeds from disposal of noncurrent assets held for sale	384,285	-
Payment for property, plant and equipment	(9,906,807)	(6,711,363)
Proceeds from disposal of property, plant and equipment	519,489	20,914
Increase in refundable deposits	(250,177)	(915,853)
Decrease in refundable deposits	333,973	780,503
Increase in prepayments for equipment	(17,754,915)	(13,472,830)
Refund in prepayments for aircrafts	5,693,791	10,186,049
Increase in computer software cost	(277,235)	(408,721)
Decrease (increase) in restricted assets	230,338	(88,332)
Net cash used in investing activities	(21,021,616)	(10,441,578)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(35,000)	(4,190,523)
(Decrease) increase in short-term bills payable	890,005	(2,078,113)
Proceeds from issue of bonds payable	9,700,000	-
Exercise the put option of bonds payable	(994,705)	-
Repayments of bonds payable	(2,400,000)	(8,585,000)
Proceeds of long-term debts	35,241,000	16,626,343
Repayments of long-term debts and capital lease obligations	(35,501,395)	(19,601,536)
Proceeds of guarantee deposits received	121,440	124,621
Refund of guarantee deposits received	(94,448)	(121,159)
Dividends paid to owners of the Company	(2,508,525)	-
Cash dividends paid to non-controlling interest	(201,886)	(157,053)
Acquisition of subsidiaries' shares	(8,084)	(3,574)
Net cash generated from (used in) financing activities	4,208,402	(17,985,994)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(47,046)	(340,187)
NET INCREASE IN CASH AND CASH EQUIVALENTS	776,112	3,022,934
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	23,491,085	20,468,151
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 24,267,197	$ 23,491,085

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

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

China Airlines, Ltd. (the "Company") was founded in 1959 and its stocks have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) the sale of aircraft parts, equipment and entire aircraft; and (f) leasing of aircrafts.

The major stockholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2016 and 2015, CADF and NDF held 43.63% of the Company's shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement of the Company and its subsidiaries (collectively the "Group") were approved by the board of directors and authorized for issue on March 30, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

   Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies, except for the following:

1) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

   The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

   The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

   The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

   The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

2) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within [Level 2/Level 3], the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that, IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

<u>Hedge accounting</u>

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

2) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

3) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

4) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items). The Group enters into contracts with its customers. In each contract, each product or service has its stand-alone selling price. Under the contract, the Group provides a significant service of integrating the goods and services into the combined output specified in the contract. Therefore, the goods and services promised in the contract are not considered as distinct.

Under IFRS 15, the Group will allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. Under current standard, the Group applies residual value method to allocate the amount of revenue to be recognized.

Except for the above impact, as of the date the financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, other regulations (please specify) and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b. Level 2 inputs are 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); and

c. Level 3 inputs are unobservable inputs for the asset or liability.

Current and Noncurrent Assets and Liabilities

Current assets include assets held primarily for the purpose of trading, assets expected to be realized within twelve months after the reporting period, and cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets such as property, plant and equipment, investment properties, intangible assets and other assets that are not classified as current are classified as noncurrent.

Current liabilities include liabilities held primarily for the purpose of trading, liabilities due to be settled within twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Foreign Currencies

In preparing the consolidated financial statement of the Group, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting consolidated financial statement, the assets and liabilities of the Group’s foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Cash Equivalents

Cash equivalents, consisting of commercial paper and time deposits, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale and are stated at the lower of cost or net realizable value. The costs of inventories sold or consumed are determined using the weighted-average method.

Noncurrent Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group’s share of equity of associates and joint venture attributable to the Group.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group’s proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group’s share of equity of associates and joint ventures. If the Group’s ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used more than one period. The cost of an item of property, plant and equipment shall be recognized as assets if, and only if it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably. Property, plant and equipment are stated at cost, less recognized accumulated depreciation and recognized accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. The estimated useful life residual value are reviewed at the end of each reporting period.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company use the estimated cash flows to be discounted by future pre-tax discount rate, the discount rate reflects current market time value of money and the specific risks to the asset that the estimated future cash flows have not yet adjusted to the market.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All regular way purchases or sales of financial assets means buy or sell financial assets in the period made by regulation or market convention.

1) Measurement category

Financial assets are classified into the following specified categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The classification of financial assets is depending on their nature and purpose of the original recognition. Financial assets are classified into the following categories: Financial assets at fair value through profit or loss and available-for-sale financial assets.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 32.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, debt investments with no active market, and other receivables are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss and available-for-sale financial assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include the followings:

a) Significant financial difficulty of the issuer or counterparty;

b) Breach of contract, such as a default or delinquency in interest or principal payments;

c) It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

d) The disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is residual interest in any contract after the Group's assets minus all liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except for derivative financial instruments, all the financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when the obligation is discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and fuel price risks, including foreign exchange forward contracts, interest rate swaps, currency options and fuel swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rates, exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedge. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items been hedged, objective of risk management, hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

The Group recognizes provisions when the Group has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Aircraft lease contracts

When the aircraft lease contracts expire and will be returned to lessor, should assess if existing obligations exist and required to recognize as provision when signing of the lease contract.

Revenue Recognition

a. Rendering of services

   Passenger fares and cargo revenue are recognized when transport service is provided. The value of unused passenger tickets is recognized as “advance ticket - sales”.

b. Dividend and interest income

   Dividend income from investments is recognized when the shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

   Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. Financial leases

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred.

b. Sales and leasebacks

For a sale and leaseback transaction, if it meets the condition that all the risks and rewards of ownership of the leased asset is essentially transferred to the lessee, the sale and leaseback type is a finance lease. If part of the significant risks and rewards of the leased asset ownership remain with the lessor (the buyer), the sale and leaseback type is an operating lease.

1) Financial lease

This transaction does not actually dispose of the assets, the accounting treatment deemed transaction did not occur, and use the book value of the asset before sale continuing recognition of the asset.

2) Operating lease

If the selling price is equal to the fair value, the transaction gain or loss should be recognized immediately. If selling price is above fair value, the difference between the fair value and the book value of the gain or loss should be recognized immediately; only the part of selling price above fair value shall be deferred and amortized over the period of the lease.

c. Operating lease

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service cost (including current service cost, past service cost, and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Program

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member reward.

A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The entity should recognize this deferred revenue as revenue only when the entity has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the share options granted vest immediately.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

a. Current tax

   The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the consolidated statements of comprehensive income.

   The Group's current tax liabilities are calculated by the tax rate has been legislative or substantial legislative at the balance sheet date.

   According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve the retention of these earnings.

   Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

   Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

   Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

   The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

   Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

   Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of the owned or leased aircraft that meet the criteria for fixed asset capitalization and engines as replacement parts for aircraft and engines are capitalized, and amortized over the expected annual overhaul cycle using straight-line depreciation method.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies shown on Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Where the final tax payable differs from the amounts that were initially recognized, these differences will affect the income tax and deferred tax provisions in the period in which the differences are determined. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be used. When evaluating the realizability of the deferred tax asset, management uses significant accounting judgments and estimates, including expected future revenue growth and profit margins, income tax exemption periods, the use of tax credits, tax planning and certain assumptions. Changes in the industry environment and regulations will result in a material adjustment of the deferred tax asset.

Estimated Impairment of Trade Receivables

The Group assesses the receivables portfolios monthly for impairment. Impairment evidences may include observable changes in debtors' solvency and national or local economic conditions that correlate with default on receivable settlement. Management's analysis of expected cash flows is based on past experience of loss on assets with similar credit risk characteristics. The Group periodically reviews the methods of determining, and assumptions on, the expected amount and timing of cash flows to reduce the difference between the estimated and the actual losses.

Fair Value of Derivatives and Other Financial Instruments

The Group's management uses its judgment in selecting an appropriate valuation technique for financial instruments with no quoted market prices in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instruments. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The chosen valuation techniques and assumptions used are possible effecting in determining the fair value of financial instruments.

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment are depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Group on the basis of past experience and fleet operation performance in the industry.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period are calculated using actuarial assumptions. Those assumptions, which are based on management's judgment and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

Maintenance Reserve for Operating Lease Aircraft

Maintenance reserve is based on the requirement under lease contracts to reflect maintenance costs that may arise on lease expiry. Estimation of this reserve is based on the past maintenance experience on the same or similar type of aircraft; incurred overhaul costs; and historical operating performance data. Changes in judgment or estimations may have a material impact on the amount of maintenance reserve.

Frequent Flyer Program

As stated in Note 4, Frequent Flyer Program, a portion of passenger revenue attributable to the awarding of frequent flyer benefits is deferred until the awards are given out. The deferment of the revenue is estimated on the basis of historical trends of breakage and redemption, which is then used to project the expected claiming of these benefits. Changes in fair value per mileage or redemption rate may have a material impact on deferred revenue.

Impairment of Flight Equipment

The impairment of flight equipment was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

Impairment of Non-Current Assets Held For Sale

When the carrying amount of non-current assets held for sale are lower than fair value, the difference between carrying amount and fair value recognized as impairment loss, and the fair value was determined based on the quote of potential buyers, and the market price of similar assets.

6. CASH AND CASH EQUIVALENTS

	December 31 2016	December 31 2015
Cash on hand and revolving fund	$ 359,106	$ 478,223
Checking accounts and demand deposits	9,266,679	6,070,236
Cash equivalents		
Time deposits with original maturities of less than three months	3,698,109	16,163,452
Repurchase agreements collateralized by bonds	10,943,303	779,174
	$ 24,267,197	$ 23,491,085

The market rate intervals of cash in bank and cash equivalents at the end of the reporting period were as follows:

	December 31 2016	December 31 2015
Bank balance	0.05%-2%	0%-1.5%
Time deposits with original maturities of less than three months	0.13%-12.9%	0.27%-7.25%
Repurchase agreements collateralized by bonds	0.33%-1.40%	0.42%-0.51%

The amount of time deposits with original maturities more than three months for the years ended December 31, 2016 and 2015 were $1,267,927 thousand and $1,653,927 thousand, respectively, and the market rate intervals were 0.16%-2.45% and 0.295%-4.1%, which were recognized as other current assets. (Refer to Note 19).

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

	December 31 2016	December 31 2015
Financial assets held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ 1,200	$ 63,818
Non-derivative financial assets		
Beneficial certificates	415,441	478,508
	$ 416,641	$ 542,326
Financial assets held for trading - noncurrent		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ -	$ 1,710

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.26	NTD32,258/USD1,000
December 31, 2015			
Buy forward contracts	NTD/USD	2016.01.08-2017.01.26	NTD3,276,316/USD99,600

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2016		2015	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Non-current				
Domestic listed company				
Trans Asia Airways	$ -	-	$ 19,080	-

On November 22, 2016, the board of the directors of TransAsia Airways (TNA) resolved to dissolve TNA. Therefore, the Group recognized an impairment loss on its investment related to TNA of $19,005 thousand. Furthermore, the Group recognized a full allowance for bad debts to the accounts receivable related to TNA.

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2016	2015
Derivative financial assets under hedge accounting		
Foreign exchange forward contracts	$ 61,634	$ 51,060
Currency options	-	12,403
Fuel options	83	335
	$ 61,717	$ 63,798
Current	$ 58,449	$ 52,582
Non-current	3,268	11,216
	$ 61,717	$ 63,798

(Continued)

	December 31	
	2016	2015
Derivative financial liabilities under hedge accounting		
Interest rate swaps	$ 3,855	$ 12,702
Currency options	-	12,660
Fuel options	-	299,618
Foreign exchange forwards contracts	19,774	-
	$ 23,629	$ 324,980
Current	$ 20,854	$ 313,689
Non-current	2,775	11,291
	$ 23,629	$ 324,980

(Concluded)

The fair value of each derivative contract is determined using quotes from financial institutions.

Cash Flow Hedge

a. Interest rate swaps

The Group entered into interest rate swap contracts to mitigate the risk of changes in interest rates on the cash flow exposure related to the outstanding floating rate debt. All swapped fixed interest rate swap out the floating rate interest rate swap contracts are designated as cash flow hedges. The outstanding interest rate swap contracts at the end of the reporting period were as follows:

Notional Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2016			
NT$2,500,000	2017.03.09-2017.06.22	1.01%-1.14%	TAIBOR rate
December 31, 2015			
NT$3,000,000	2016.11.28-2017.06.22	1.01%-1.14%	TAIBOR rate

The interest rate swaps settle on a quarterly basis. The Company will settle the difference between the fixed and floating interest rates on a net basis.

b. Currency options

The Group entered into currency option to minimize the risk of changes in foreign currency rate on the cash flow exposure related to fuel payments, which will be paid in U.S. dollars.

The outstanding currency options at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2015			
Buy USD call option	JPY/USD	2016.01.08-2016.12.09	JPY3,446,570/USD28,400
Sell USD put option	JPY/USD	2016.01.08-2016.12.09	JPY3,364,604/USD28,400

c. Fuel options

The Group used fuel options to minimize the risk of changes in fuel price related to operating cost.

The outstanding fuel options at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy fuel call option	USD	2017.01.05-2018.02.08	NTD83
December 31, 2015			
Buy fuel call option	USD	2016.01.05-2016.12.07	NTD335
Sell fuel put option	USD	2016.01.05-2016.12.07	NTD299,618

Based on the Taiwan Stock Exchange's regulation for the public companies' monthly declarations on the trading of derivative financial instruments, the contractual amounts are shown at the absolute values of the fair values because fuel swap contracts only have notional amounts.

d. Foreign exchange forward

The Group entered into foreign exchange forward contracts to minimize cash flow exposure related to fuel payments and aircraft payments, which will be paid in U.S. dollars.

The outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.03-2018.10.25	NTD5,381,178/USD167,078
December 31, 2015			
Buy forward contracts	NTD/USD	2016.01.18-2017.05.23	NTD1,076,882/USD32,920

Gains and losses of hedging instruments reclassified from equity to profit or loss were included in the following line items in the consolidated statements of comprehensive income:

	For the Year Ended December 31	
	2016	**2015**
Increase in operating cost	$ (352,960)	$ (2,582,480)
Increase in finance cost	(10,390)	(7,151)
Other foreign exchange gain (loss)	(71,460)	34,786
	$ (434,810)	$ (2,554,845)

The amount of gains and losses on hedging instruments reclassified from profit or loss to prepayments for equipment was $154,970 thousand in 2016.

10. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2016		**2015**	
	Carrying Value	**% of Owner-ship**	**Carrying Value**	**% of Owner-ship**
Unlisted common stocks				
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 52,704	14
Jardine Aviation Service	56,023	15	56,023	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	6	75,791	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	20,157	5	21,995	5
Chung Hwa Express Co.	11,000	11	11,000	11
Regal International Advertising	-	-	5,925	6
	139,884		223,438	
Unlisted preferred stocks				-
Everest Investment Holdings Ltd. (AH)	473	-	473	
	$ 140,357		$ 223,911	
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 140,357		$ 223,911	

The Group recognized an impairment loss of $71,826 thousand, which was classified as other gains (losses) for the year ended December 31, 2016, due to the permanent decline of the value of Taikoo (Xiamen) Landing Gear Service Co., Ltd.

The Company and the other airlines in the Asian Region set up Abacus International Holdings (AH Company), which owned Abacus Distribution Systems. Due to strategic adjustments, AH Company disposed of its shares of Abacus Distribution Systems. The board of directors of AH Company resolved and approved of the return of the gain on the disposal to stockholders by cash dividends and share redemptions. The Company received cash dividends of $1,660,687 thousand and share redemptions of $245,242 thousand from AH Company. AH Company changed its name to Everest Investment Holdings Ltd. after the disposal of its aforementioned subsidiary.

On the reporting date, the above unlisted stock investments held by the Group were measured at cost after deducting impairment losses because their range of reasonable fair value estimates were significant and unable to be reasonably evaluated. Thus, the management considered their fair values unable to be measured.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Notes receivable	$ 525,797	$ 344,479
Accounts receivable		
Accounts receivable	8,019,386	7,376,125
Less: Allowance for impairment loss	(191,398)	(109,927)
	7,827,988	7,266,198
	$ 8,353,785	$ 7,610,677

The average credit period was 7 to 55 days. In determining the recoverability of an account receivable, the Group considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period, and any allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Group's past default experience with the counterparty and an analysis of the counterparty's current financial position.

Movement in the allowance for impairment loss recognized on notes receivable and trade receivables were as follow:

	For the Year Ended December 31	
	2016	2015
Beginning balance	$ 109,927	$ 66,131
Impairment loss recognized on receivables	83,657	49,458
Amounts written off during current period	(2,462)	(5,292)
Exchange influence	276	(370)
Ending balance	$ 191,398	$ 109,927

12. INVENTORIES

	December 31	
	2016	2015
Aircraft spare parts	$ 7,713,264	$ 7,648,352
Items for in-flight sale	553,327	507,603
Work in process - maintenance services	166,684	143,489
Others	1,111	954
	$ 8,434,386	$ 8,300,398

The operating costs recognized for the years ended December 31, 2016 and 2015 included losses from inventory write-downs of $196,000 thousand and $151,688 thousand, respectively.

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2016	2015
Aircrafts held for sale	$ 185,100	$ 670,455

To enhance its competitiveness, the Company implemented a replacement plan to introduce new aircrafts and retire old aircrafts. From August 2015, several resolutions were successively made by the Company's board of directors to dispose of several aircrafts and the Company reclassified those aircrafts as non-current assets held-for-sale. The difference between the original carrying amount and the expected transaction value was recognized as an impairment loss, and the Company will assess if further impairment arises in subsequent periods. The actual amount of loss is determined based on the actual selling price of each aircraft. In 2016 and 2015, the Company recognized impairment losses of $347,868 thousand and $1,899,372 thousand, respectively. In 2016, the Company recognized a loss on the disposal of non-current assets held for sale of $26,429 thousand.

14. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

			Proportion of Ownership	
			December 31	
Investor Company	Investee Company	Main Businesses and Products	2016	2015
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100
	Cal-Asia Investment	General investment	100	100
	Hwa Hsia	Cleaning of aircraft and maintenance of machine and equipment	100	100
	Yestrip	Travel business	100	100
	Cal Park	Real estate lease and international trade	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59
	Dynasty Holidays	Travel business	51	51
	Taoyuan International Airport Services	Airport services	49	49
	Taiwan Airport Services (Note)	Airport services	48	47
	Global Sky Express	Forwarding and storage of air cargo	25	25
	Freighter Princess Ltd.	Aircraft lease	100	100
	Freighter Prince Ltd.	Aircraft lease	100	100
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	90	90
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100
Hwa Hsia	Hwa Shin Building Safeguard	Building security and maintenance services	-	100

Note: Proportion of ownership is considered from the perspective of the Group.

To facilitate the integration of resources and business management of the Group, on August 1, 2016, Hwa Hsia Co., Ltd. merged with Hwa Shin Building Safeguard Co., Ltd. (the dissolved company) and was the surviving entity. All of the assets, liabilities and other rights and obligations were transferred to Hwa Hsia Co., Ltd.

Considering the Group's development strategy, Mandarin Airlines bought 323,367 shares of Taiwan Airport Services for a total of $8,084 thousand over the course of the current year.

The Company increased its investments with a payment of $100,000 thousand to Taiwan Aircraft Maintenance and Engineering Co., Ltd. in October 2016 for the purpose of building hangars.

To integrate the resources of the Group, the board of directors reached an agreement to purchase 10% of the shares of Tigerair Taiwan, which were held by Roar Aviation III Pte. Ltd., in December 2016. The transaction was completed in January 2017.

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the years ended December 31, 2016 and 2016 of these subsidiaries was reported according to information that was independently audited.

The Group's holding of the issued share capital of China Pacific Catering Services and China Pacific Laundry Services exceeded 50%, yet the Group did not have control over the investees. For related information, refer to Note 15,b.

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31	
	2016	2015
Investments in associates	$ 2,060,403	$ 2,010,774
Investments in jointly controlled entities	806,028	867,003
	$ 2,866,431	$ 2,877,777

a. The amount of investment in associates were as follows:

	December 31	
	2016	2015
Unlisted companies		
China Aircraft Services	$ 515,051	$ 490,824
Kaohsiung Catering Services	267,371	244,903
Asian Compressor Technology Services	279,176	263,091
Science Park Logistics	257,928	185,226
Airport Air Cargo Terminal (Xiamen)	467,041	494,665
Airport Air Cargo Service (Xiamen)	230,888	226,066
Eastern United International Logistics (Holdings) Ltd.	42,948	41,908
	2,060,403	1,946,683
Prepaid long-term investments - Science Park Logistics	-	64,091
	$ 2,060,403	$ 2,010,774

On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common shares for cash with the date of right issuances granted on was December 25, 2015. The board of the Company reached an agreement to purchase $64,091 thousand of common shares, which were remitted to SPL. SPL completed the registration of this subscription on January 22, 2016.

At the end of the reporting period, the proportion of ownership and voting rights of associates held by the Group were as follows:

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Associate	**2016**	**2015**
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	25%	25%
Science Park Logistics	26%	28%
Airport air Cargo Terminal (Xiamen)	28%	28%
Airport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

The investment income of associates recognized accounted for using equity method were as follows:

	2016	**2015**
China Aircraft Services	$ 51,028	$ 46,247
Kaohsiung Catering Services	75,674	58,084
Asian Compressor Technology Services	109,815	93,375
Science Park Logistics	26,136	16,373
Airport air Cargo Terminal (Xiamen)	14,307	18,449
Airport air Cargo Service (Xiamen)	24,742	22,362
Eastern United International Logistics (Holdings) Ltd.	5,617	6,759
	$ 307,319	$ 261,649

Other comprehensive income of associates accounted for by using the equity method in 2016 and 2015 are losses in the amounts of $(1,325) thousands and $(1,720) thousand, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for by using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 were all independently audited, except those of China Aircraft Services and Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee’s financial statements been independently audited.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2016	**2015**
China Pacific Catering Services	$ 638,980	$ 705,134
China Pacific Laundry Services	167,048	161,869
	$ 806,028	$ 867,003

At the end of the reporting period, the proportion of ownership and voting rights in jointly controlled entities held by the Group were as follows:

	Proportion of Ownership and Voting Rights	
	December 31	
	2016	2015
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%

The Group entered into a joint venture agreement with the Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the majority power in the board of directors to pose a motion for veto, and therefore the Group does not have control.

Details of investment income attributable to investment in jointly controlled entitles were as follows:

	For the Year Ended December 31	
	2016	2015
China Pacific Catering Services	$ 208,039	$ 231,012
China Pacific Laundry Services	21,628	23,479
	$ 229,667	$ 254,491

Other comprehensive income of associates accounted for by using the equity method in 2016 and 2015 are losses in the amounts of $(65,531) thousand and $(1,943) thousand, respectively.

The investments in jointly controlled entities accounted for by using the equity method and the Group's shares of their profit or loss and other comprehensive income were based on the jointly controlled entities' financial statements which had not been reviewed by independent auditors.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 5, "Names, Locations, And Other Information Of Investees On Which The Company Exercises Significant Influence" and Table 6, "Investments In Mainland China" following these Notes to Consolidated Financial Statements.

16. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2015
Cost		
Freehold land	$ 965,174	$ 976,427
Buildings	13,104,983	13,140,158
Flight equipment	248,262,079	229,849,035
Equipment under finance leases	28,898,891	28,087,404
Machinery equipment	10,317,327	9,930,186
Office equipment	1,086,015	1,044,598
Leased assets	120,100	129,372

(Continued)

	December 31	
	2016	**2015**
Leasehold improvements	$ 3,958,811	$ 3,928,846
Construction in progress	499,547	134,888
	$ 307,212,927	$ 287,220,914
Accumulated depreciation and impairment loss		
Buildings	$ 5,781,555	$ 5,355,804
Flight equipment	135,893,108	128,953,990
Equipment under finance leases	15,846,688	14,201,904
Machinery equipment	6,964,422	6,598,390
Office equipment	894,997	839,931
Leased assets	101,882	113,276
Leasehold improvements	1,593,538	1,528,753
	$ 167,076,190	$ 157,592,048
Net value	$ 140,136,737	$ 129,628,866

(Concluded)

	Freehold Land	**Buildings**	**Flight Equipment**	**Equipment under Finance Leases**	**Others**	**Total**
Cost						
Balance at January 1, 2015	$ 953,614	$ 13,085,921	$ 232,035,450	$ 33,985,116	$ 14,697,246	$ 294,757,347
Additions	-	45,404	5,640,527	394,939	630,493	6,711,363
Disposals	-	(31,102)	(3,085,768)	(550,429)	(330,385)	(3,997,684)
Reclassification	-	590	(4,741,174)	(5,742,222)	165,938	(10,316,868)
Net exchange difference	22,813	39,345	-	-	4,598	66,756
Balance at December 31, 2015	$ 976,427	$ 13,140,158	$ 229,849,035	$ 28,087,404	$ 15,167,890	$ 287,220,914
Accumulated depreciation and impairment						
Balance at January 1, 2015	$ -	$ (4,794,850)	$ (121,645,204)	$ (16,998,403)	$ (8,663,824)	$ (152,102,281)
Depreciation expense	-	(562,749)	(13,852,657)	(2,104,460)	(741,629)	(17,261,495)
Disposals	-	18,015	2,878,909	550,430	325,893	3,773,247
Impairment loss	-	-	(569,000)	-	-	(569,000)
Reclassification	-	(55)	4,233,962	4,350,529	2,250	8,586,686
Net exchange difference	-	(16,165)	-	-	(3,040)	(19,205)
Balance at December 31, 2015	$ -	$ (5,355,804)	$ (128,953,990)	$ (14,201,904)	$ (9,080,350)	$ (157,592,048)
Cost						
Balance at January 1, 2016	$ 976,427	$ 13,140,158	$ 229,849,035	$ 28,087,404	$ 15,167,890	$ 287,220,914
Additions	-	93,660	7,964,882	1,017,510	858,094	9,934,146
Disposals	-	(110,227)	(6,339,141)	(410,271)	(293,592)	(7,153,231)
Reclassification	-	406	16,787,303	204,248	252,436	17,244,393
Net exchange difference	(11,253)	(19,014)	-	-	(3,028)	(33,295)
Balance at December 31, 2016	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ (5,355,804)	$ (128,953,990)	$ (14,201,904)	$ (9,080,350)	$ (157,592,048)
Depreciation expense	-	(508,403)	(14,209,081)	(2,061,900)	(765,860)	(17,545,244)
Disposals	-	74,349	5,612,149	410,271	288,884	6,385,653
Impairment loss	-	-	(717,758)	-	-	(717,758)
Reclassification	-	-	2,375,572	6,690	631	2,382,893
Net exchange difference	-	8,303	-	155	1,856	10,314
Balance at December 31, 2016	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)

(Concluded)

Property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

Building	
Main buildings	45-55 years
Others	10-25 years
Machinery equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Assets leased to others	3-5 years
Flying equipment and equipment under finance leases	
Airframes	15-25 years
Aircraft cabins	7-20 years
Engines	10-20 years
Heavy maintenance on aircrafts	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	7-12 years
Repairable spare parts	3-15 years
Leased aircraft improvements	5-12 years

Regarding changes in fleet composition, current and forecasted market value, and other technical factors, the Group recognized impairment losses on aircraft equipment in 2016 and 2015 of $717,758 thousand and $569,000 thousand, respectively.

Refer to Note 34 for the carrying amounts of property, plant and equipment pledged by the Group.

Based on the particularity of risk in the aviation industry, all of the Group’s assets such as aircrafts, real estate, and movable property are adequately insured to diversify the potential risk related to operations.

The Group generated the following non-cash investment activities related to the purchase of property, plant and equipment in 2016:

	December 31, 2016
Increase in property, plant and equipment	$ 9,934,146
Increase in retentions payable on construction contracts	(25,647)
Capitalized interest paid	(1,692)
Purchase of property, plant and equipment paid	$ 9,906,807

17. INVESTMENT PROPERTIES

	December 31	
	2016	2015
Carrying amount		
Investment properties	$ 2,075,903	$ 2,076,182

The investment properties held by the Group were land located in Nankan and buildings in Taipei, which were all leased to others. The buildings were depreciated on a straight-line basis over 55 years.

The fair value of the investment properties held by the Group was $2,348,759 thousand as of both December 31, 2016 and 2015.

The fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

All of the Group’s investment properties were held under freehold interest.

	Cost	Accumulated Impairment and Depreciation	Net Value
Balance on January 1, 2015	$ 2,082,390	$ (5,929)	$ 2,076,461
Additions	-	(279)	(279)
Balance on December 31, 2015	$ 2,082,390	$ (6,208)	$ 2,076,182
Balance on January 1, 2016	$ 2,082,390	$ (6,208)	$ 2,076,182
Additions	-	(279)	(279)
Balance on December 31, 2016	$ 2,082,390	$ (6,487)	$ 2,075,903

18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2015	$ 1,214,465	$ (543,468)	$ 670,997
Additions	408,721	-	408,721
Amortization expense	-	(70,040)	(70,040)
Balance at December 31, 2015	$ 1,623,186	$ (613,508)	$ 1,009,678
Balance at January 1, 2016	$ 1,623,186	$ (613,508)	$ 1,009,678
Additions	277,235	-	277,235
Amortization expense	-	(147,486)	(147,486)
Reclassification	(2,267)	-	(2,267)
Exchange influence	-	(45)	(45)
Balance at December 31, 2016	$ 1,898,154	$ (761,039)	$ 1,137,115

The above other intangible assets were depreciated on a straight-line basis over 2-12 years.

19. OTHER ASSETS

	December 31	
	2016	2015
Current		
Other financial assets	$ 1,267,927	$ 1,653,927
Temporary payments	355,003	632,661
Prepayments	2,429,741	1,146,659
Restricted assets	178,193	500
Others	407,638	495,000
	$ 4,638,502	$ 3,928,747
Noncurrent		
Prepayments for aircrafts	$ 20,942,278	$ 28,714,476
Prepayments - long-term	2,020,389	2,522,891
Refundable deposits	1,389,464	1,489,112
Restricted assets	144,835	504,924
Other financial assets	18,827	14,144
Others	30,289	1,312
	$ 24,546,082	$ 33,246,859

The prepayments for aircrafts comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and 777-300ER aircrafts. For details of the contract for the purchase of the A350-900 aircrafts, refer to Note 35. The rights to the six confirmed orders of 777-300 ER aircrafts were transferred to the aircraft leasing company upon delivery of the aircrafts. Then, all six aircrafts were leased back. As of May 2016, all the aircrafts had been delivered, and the Group was refunded with deposits for the aircraft purchases.

The Group designated its time deposits with original maturities of more than three months which were classified as other financial instruments as cash flow hedges to hedge exchange rate exposure from the expenditure of aircraft rentals. As of December 31, 2016, the book value of the hedging instruments was $455,037 thousand. The losses on the effective portion of the cash flow hedges reclassified from equity for 2016 were $2,884 thousand, which were classified as operating costs in the statement of comprehensive income.

20. BORROWINGS

a. Short-term loans

	December 31	
	2016	**2015**
Bank loans - unsecured	$ 135,000	$ 173,289
Interest rates	1.51%-2%	1.25%-1.8636%

b. Short-term and bills payable

	December 31	
	2016	**2015**
Commercial paper	$ 900,000	$ 10,000
Less: Unamortized discount on bills payable	-	5
	$ 900,000	$ 9,995
Annual discount rate	0.758%	1.3%

c. Long-term debts

	December 31	
	2016	**2015**
Unsecured bank loans	$ 33,993,999	$ 31,231,342
Secured bank loans	18,100,914	25,342,804
Commercial paper		
Proceeds from issue	37,200,000	31,275,000
Less: Unamortized discount	64,186	65,529
	89,230,727	87,783,617
Less: Current portion	32,268,540	30,092,112
	$ 56,962,187	$ 57,691,505

For information on secured bank loans which were secured by freehold land, buildings, machinery equipment and flight equipment, refer to Note 34.

Bank loans (New Taiwan dollars and U.S. dollars) are repayable quarterly, semiannually or in lump sum upon maturity. Related information is summarized as follows:

	Currency	
	New Taiwan Dollars	**U.S. Dollars**
Original currency		
December 31, 2016	$ 51,045,365	$ 32,536
December 31, 2015	52,533,784	122,827
Translated to New Taiwan dollars		
December 31, 2016	51,045,365	1,049,548
December 31, 2015	52,533,784	4,040,362
Interest rates		
December 31, 2016	0.92%-2.27%	0.8539%-4.39%
December 31, 2015	1.1432%-2.613%	0.4067%-4.39%
Periods		
December 31, 2016	2005/3/4-2029/2/4	2005/1/18-2017/9/21
December 31, 2015	2004/12/16-2029/2/4	2004/6/28-2017/9/21

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until February 2021, were used by the Group to guarantee commercial papers issued. As of December 31, 2016 and 2015, the commercial papers were issued at discount rates of 1.0510%-1.4580% and 1.2407%-1.5833%, respectively.

21. BONDS PAYABLE

	December 31	
	2016	**2015**
Secured corporate bonds first-time issued in 2011	$ -	$ 2,400,000
Unsecured corporate bonds first-time issued in 2013	10,900,000	10,900,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	-
Unsecured corporate bonds second-time issued in 2016	5,000,000	-
Convertible bonds - fifth time	1,638,044	2,544,106
	22,238,044	15,844,106
Less: Current portion and put option of convertible bonds	2,700,000	4,944,106
	$ 19,538,044	$ 10,900,000

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.05.20-2016.05.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.05.20-2016.05.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.05.20-2016.05.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.05.20-2016.05.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.08
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to share capital or buying back, principal repayable in December of 2018	-

The above indicator rate is the 90 days' commercial paper rates of Taiwan's secondary market.

The Company issued its 2016 first unsecured corporate bonds with a face value of $5,000,000 thousand, and the purchasers of the bonds included Mandarin Airlines Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd., who held a face value of $300,000 thousand which was eliminated from the consolidated financial statements.

The Company issued the fifth issue of unsecured convertible bonds, and the issuance conditions were as follows:

a. The holders may demand a lump-sum payment for the bonds upon maturity.

b. The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" in December 2015. The Company paid $994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy back of $41,943 thousand, for which the Company reclassified the remaining face value to non-current asset.

c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.

d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT$12.24, which is subject to adjustment if there is a capital injection by cash, stock dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 31, 2016, there was adjustment the conversion price to NT$11.64, corporate bonds with a face value of $3,315,700 thousand had been converted to 270,890 thousand of common shares.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - options. The effective interest rate of the liability component was 1.8245% per annum on initial recognition.

Proceeds from issuance	$ 6,000,000
Equity component	(518,621)
Liability component at the date of issuance	$ 5,481,379

22. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2016	**2015**
Minimum lease payments -flight equipment		
Within one year	$ 1,254,000	$ 1,428,467
Later than one year and no later than five years	3,562,000	5,079,133
Present value of minimum lease payments	$ 4,816,000	$ 6,507,600
Interest rates	1.0323%-1.0980%	1.1828%-1.5667%

As of December 31, 2016, the Company leased engines and a total of four A330-300 and B747-400 aircrafts by sale-leaseback contracts under finance leases. The lease terms are from April 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to the aircrafts and engines and enjoyed the same substantive rights as were enjoyed prior to the transactions. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Finance leases

Taiwan Air Cargo Terminal Co. (TACT) entered into a terminal construction contract. Refer to Note 35 for the terms of the contract. Dynasty Holiday Co., Ltd. signed a long-term equipment lease contract, and the lease contract is a finance lease contract.

	December 31	
	2016	**2015**
Minimum lease payments - cargo terminal and other		
Within one year	$ 30,131	$ 37,697
Beyond one year and within five years	85,244	117,433
	115,375	155,130
Less: Financial cost	(2,070)	(7,626)
Present value of minimum lease payments	$ 113,305	$ 147,504
Present value of minimum lease payments - cargo terminal and other		
Within one year	$ 30,001	$ 29,490
Beyond one year and within five years	83,304	118,014
	$ 113,305	$ 147,504
Discount rate	4.756%	4.96%
Total amount of present value of minimum lease payments		
Current	$ 1,284,001	$ 1,457,957
Noncurrent	3,645,304	5,197,147
	$ 4,929,305	$ 6,655,104

c. Operating lease arrangements (include sale-leaseback-operating lease)

China Airlines, Ltd., Mandarin Airlines, Tigerair Taiwan and Taiwan Air Cargo Terminal rented planes, hangars and etc. under various operating lease contracts expiring on various dates until May 2028. The Group does not have a bargain purchase option to acquire the leased planes and hangar at the expiration of the lease periods.

The rental rates stated in the aircraft lease agreements some are fixed and some are floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of December 31, 2016, the Group has rented eleven A330-300 planes, thirteen B737-800 planes, ten 777-300ER planes, six ERJ 190 planes and eight A320-200 planes under operating contracts which the lease terms range from 8 to 12 years, with an extension option.

As of December 31, 2016 and 2015, the refundable deposits paid by the Group under operating lease contracts were $982,988 thousand and $952,520 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31 2016 and 2015 were $1,459,935 thousand and $1,304,259 thousand.

The future minimum lease payments for the non-cancelable operating lease commitments were as follows:

	December 31	
	2016	**2015**
Up to 1 year	$ 10,431,969	$ 8,896,478
Over 1 year to 5 years	39,692,972	33,344,415
Over 5 years	33,360,179	32,325,852
	$ 83,485,120	$ 74,566,745

The lease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2016	**2015**
Minimum lease payments	$ 10,723,726	$ 7,896,856

23. OTHER PAYABLES

	December 31	
	2016	**2015**
Fuel costs	$ 2,664,944	$ 2,038,041
Ground service expenses	902,879	1,135,152
Repair expenses	968,371	916,442
Interest expense	294,751	262,601
Short-term employee benefits	1,926,538	3,310,173
Terminal surcharges	748,070	781,621
Commission expenses	391,857	450,492
Others	3,567,844	3,402,026
	$ 11,465,254	$ 12,296,548

24. DEFERRED REVENUE

	December 31	
	2016	**2015**
Frequent flyer program	$ 2,427,565	$ 2,610,667
Advance ticket sales	14,202,198	12,365,348
	$ 16,629,763	$ 14,976,015
Current	$ 14,820,860	13,112,086
Noncurrent	1,808,903	1,863,929
	$ 16,629,763	$ 14,976,015

25. PROVISIONS

	December 31	
	2016	2015
Operating lease-aircraft	$ 7,490,154	$ 6,187,481
Current	$ 81,925	$ 20,186
Non-current	7,408,229	6,167,295
	$ 7,490,154	$ 6,187,481

	Aircraft Lease Contract
Balance at January 1, 2015	$ 4,303,780
Additional provisions recognized	2,079,169
Usage	(237,716)
Effect of exchange rate changes	42,248
Balance at December 31, 2015	$ 6,187,481
Balance at January 1, 2016	$ 6,187,481
Additional provisions recognized	2,613,011
Usage	(1,393,565)
Effect of exchange rate changes	83,227
Balance at December 31, 2016	$ 7,490,154

The Company and Mandarin Airlines leased flight equipment under operating lease agreements. Under the contracts, when the leases expire and the equipment is returned to the lessor, the flight equipment has to be repaired according to the expected years of use, number of flight hours, flight cycles and the number of engine revolutions. The Group had existing obligations to recognize provisions when signing a lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements. In accordance to the contract, Tigerair had to pay the maintenance reverse accounted for the number of flying hours.

26. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Employees in U.S. and Japan of China Airlines Co., Ltd. and subsidiaries are members of U.S. and Japan government retirement benefit plans. Subsidiaries should appropriate specific portion to retirement benefit plans. The obligation to the government retirement benefit plans of China Airlines Co., Ltd. and subsidiaries is appropriating specific portion amount.

b. Defined benefit plans

The defined benefit plan adopted by the Company and in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and subsidiary contribute amounts equal to 2%-15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2016	**2015**
Present value of funded defined benefit obligation	$ 15,119,110	$ 14,436,208
Fair value of plan assets	(7,162,275)	(3,882,634)
Deficit (net defined benefit liability)	$ 7,956,835	$ 10,553,574

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability (Asset)**
Balance at January 1, 2015	$ 14,073,849	$ (3,880,941)	$ 10,192,908
Service cost			
Current service cost	400,144	-	400,144
Net interest expense (income)	243,257	(67,747)	175,510
Recognized in profit or loss	643,401	(67,747)	575,654
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(40,100)	(40,100)
Actuarial (gain) loss - changes in demographic assumptions	15,335	-	15,335
Actuarial (gain) loss - changes in financial assumptions	189,433	-	189,433
Actuarial (gain) loss - experience adjustments	512,165	-	512,165
Recognized in other comprehensive income	716,933	(40,100)	676,833
Contributions from the employer	-	(768,025)	(768,025)
Benefits paid	(874,179)	874,179	-
Others	(123,796)	-	(123,796)
Balance at December 31, 2015	14,436,208	(3,882,634)	10,553,574

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Service cost			
Current service cost	$ 742,100	$ -	$ 742,100
Net interest expense (income)	161,780	(45,264)	116,516
Recognized in profit or loss	903,880	(45,264)	858,616
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	7,254	7,254
Actuarial (gain) loss - changes in demographic assumptions	6,094	-	6,094
Actuarial (gain) loss - changes in financial assumptions	(233,100)	-	(233,100)
Actuarial (gain) loss - experience adjustments	1,160,547	-	1,160,547
Recognized in other comprehensive income	933,541	7,254	940,795
Contributions from the employer	-	(4,221,019)	(4,221,019)
Benefits paid	(979,274)	979,274	-
Others	(175,245)	114	(175,131)
Balance at December 31, 2016	$ 15,119,110	$ (7,162,275)	$ 7,956,835

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	2015
Discount rate(s)	1.000%-1.625%	1.250%-2.000%
Expected rate(s) of salary increase	1.000%-2.000%	1.000%-2.250%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31, 2016
Discount rate(s)	
0.5% increase	$ (659,696)
0.5% decrease	715,139
Expected rate(s) of salary increase	
0.5% increase	(688,912)
0.5% decrease	646,851

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	2015
The expected contributions to the plan for the next year	$ 880,886	$ 757,933
The average duration of the defined benefit obligation	7-13 years	7-13 years

27. EQUITY

a. Share capital

Common shares

	December 31	
	2016	2015
Numbers of shares authorized (in thousands)	6,000,000	6,000,000
Amount of shares authorized	$ 60,000,000	$ 60,000,000
Amount of shares issued	$ 54,708,901	$ 54,708,901

The Company issued the 5th domestic unsecured convertible bonds, and the convertible bonds holders applied for conversion in the amount of $2,713,900 thousand. The common shares exchanged were in the amount of $221,724 thousand and are entitled to have their registration changed after the issuance of new shares.

b. Capital surplus

	December 31	
	2016	2015
Issuance of stock in excess of par value and conversion premium	$ 552,470	$ 552,470
Employee stock options expired	11,747	11,747
Long-term investment	1,019	1,019
Gain on sale of treasury shares held by subsidiaries	2,673	1,156
Bonds payable equity component	146,684	232,023
Others	85,339	-
	$ 799,932	$ 798,415

The capital surplus from shares issued in excess of par (including additional paid-in capital from issuance of common shares and treasury share transactions) and donations may be used to offset deficits; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (but limited to a certain percentage of the Company's paid-in capital on yearly basis).

The capital surplus from long-term investments and employee stock options expired may not be used for any purpose. Besides, capital surplus from conversion of employee stock and convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

Under the dividend policy as set forth in the Company's Articles of Incorporation (the "Articles") amended on June 24, 2016 based on the amended Company Act, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan with due consideration of any future aircraft acquisition plans and fund demand, which should be resolved in the stockholders' meeting for the distribution of dividends and bonuses to stockholders by cash or stock (cash dividends cannot be less than 30% of total dividends distributed). However, if the Company's profit before tax in a fiscal year after deductions for the abovementioned items is not sufficient for earnings distribution, retained earnings can be used as a supplement for the deficiency. If the Company has no deficit in a fiscal year, the Company can distribute all or part of the capital surplus by cash or stock with due consideration of finance, marketing and management requirements in accordance with the laws and regulations.

For the earnings distribution under the Articles before the amendment, refer to Note 27 of the consolidated financial statements for the year ended December 31, 2015.

The distribution of dividends should be resolved and recognized in the stockholders' meeting in the following year.

1) Appropriation of earnings in 2014

On June 26, 2015, the stockholders resolved to offset the accumulated deficit in 2014. The deficit included a net loss of $751,232 thousand, other retained earnings of $47,471 thousand, unappropriated deficits of $3,161,115 thousand, and a remaining amount of accumulated deficit of $3,864,876 thousand. The Company offset the accumulated deficit against the legal reserve of $1,511,953 thousand. No bonus to employees was appropriated for 2014 because of the net loss in that year.

2) Appropriation of earnings in 2015

The appropriation of earnings for 2015 was resolved in the stockholders' meeting on June 24, 2016. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 287,224	
Special reserve	76,486	
Cash dividends	2,508,525	$0.458522382

The board of directors proposed to use a legal reserve of $81,132 thousand to offset the deficit. The compensation of deficit for 2016 is still to be approved in the stockholders' meeting.

When the Company distributes undistributed earnings for the years after 1998, except for non-ROC residents stockholders, all stockholders can receive the imputation tax credit calculated by the Tax Deduction Ratio on the distribution date.

d. Others equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Total
Balance on January 1, 2015	$ 99,852	$ 4,015	$ (2,009,565)	$ (1,905,698)
Exchange differences arising on translating the foreign operations	67,413	-	-	67,413
Unrealized gain (loss) on available-for-sale financial assets	-	(3,025)	-	(3,025)
Cash flow hedge on changes in fair value of hedging instruments	-	-	(405,674)	(405,674)
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	2,555,302	2,555,302
Share of associates accounted for using the equity method	-	765		765
Effect of income tax	(9,306)	-	(366,060)	(375,366)
Balance on December 31, 2015	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Balance on January 1, 2016	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Exchange differences arising on translating the foreign operations	(93,013)	-	-	(93,013)
Cash flow hedge on changes in fair value of hedging instruments	-	-	(278,201)	(278,201)
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	589,024	589,024
Share of associates accounted for using the equity method	-	(41)	-	(41)
Effect of income tax	13,618	-	(52,840)	(39,222)
Balance on December 31, 2016	$ 78,564	$ 1,714	$ 31,986	$ 112,264

e. Non-controlling interest

	For the Year Ended December 31	
	2016	2015
Beginning balance	$ 2,286,647	$ 2,321,737
Net income attributable to non-controlling interest	139,400	162,496
Foreign exchange difference	(19,079)	102
Unrealized gain or loss on financial instrument	-	(3,368)
Actuarial gains and losses on defined benefit plan	(183,431)	(42,305)
Cash flow hedge on changes in fair value of hedging instruments	515	(818)
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	756	(457)
Effect on income tax	65,007	8,278
Acquisition of non-controlling interests in subsidiaries	(4,548)	(1,965)
Dividends paid by subsidiaries	(201,886)	(157,053)
Ending balance	$ 2,083,381	$ 2,286,647

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of December 31, 2016 and 2015 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
Year ended December 31, 2016			
Company's shares held by its subsidiaries reclassified from investments in shares to treasury shares	2,889	-	2,889
Year ended December 31, 2015			
Company's shares held by its subsidiaries reclassified from investments in shares to treasury shares	2,889	-	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2016			
Mandarin Airlines	2,075	$ 19,294	$ 19,294
Hwa Hsia	814	7,572	7,572
		$ 26,866	$ 26,866
December 31, 2015			
Mandarin Airlines	2,075	$ 24,895	$ 24,895
Hwa Hsia	814	9,770	9,770
		$ 34,665	$ 34,665

Above subsidiaries acquisition of the Company's shares in previous years was due to investment planning.

The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise stockholders' right on these treasury shares, except for the rights to subscribe for the Company's new shares and voting rights.

28. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2016	2015
Passenger	$ 95,282,373	$ 94,962,055
Cargo	35,721,425	40,292,840
Others	10,075,309	9,801,322
	$ 141,079,107	$ 145,056,217

b. Other income

	For the Year Ended December 31	
	2016	2015
Interest income	$ 242,801	$ 466,923
Subsidy income	168,377	184,512
Dividend income	59,099	1,884,052
Others	288,862	695,692
	$ 759,139	$ 3,231,179

c. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Gain on disposal property, plant and equipment and noncurrent assets held for sale	$ 53,419	$ 13,155
Net gain (loss) arising on financial assets classified as held for trading	(35,678)	150,871
Gain or loss on foreign exchange, net	(629,965)	244,045
Impairment loss on noncurrent assets held for sale	(347,868)	(1,899,372)
Impairment loss on property, plant and equipment	(717,758)	(569,000)
Others	(1,010,246)	(897,537)
	$ (2,688,096)	$ (2,957,838)

The mediation of labor-management disputes between the Company and Taoyuan Flight Attendants Union (TFAU) was unsuccessful. TFAU acquired the right to strike through a strike vote and started the strike at 12 a.m. on June 24, 2016, and the scheduled flights resumed as usual on June 25, 2016 after both parties reached a consensus. For other related information, refer to the Taiwan Stock Exchange Market Observation Post System.

The Company provided a compensatory plan to the passengers and the agents who suffered losses from the strike, and the related compensation expense was about $201,000 thousand.

d. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest expense		
Bonds payable	$ 294,890	$ 292,242
Bank loans	912,945	1,343,488
Interest on obligations under financial leases	74,640	140,912
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss	10,390	7,151
	$ 1,292,865	$ 1,783,793

Information of interest capitalization was as follows:

	For the Year Ended December 31	
	2016	2015
Capitalization interest	$ 421,285	$ 344,835
Capitalization rate	1.45%-1.73%	1.74%-1.80%

e. Depreciation and amortization expense

	For the Year Ended December 31	
	2016	2015
Property, plant, equipment	$ 17,545,244	$ 17,261,495
Investment property	279	279
Intangible asset	147,486	70,040
Depreciation and amortization expense	$ 17,693,009	$ 17,331,814
An analysis of depreciation by function		
Operating costs	$ 16,839,497	$ 16,507,474
Operating expenses	706,026	754,300
	$ 17,545,523	$ 17,261,774
An analysis of amortization by function		
Operating costs	$ 32	$ 810
Operating expenses	147,454	69,230
	$ 147,486	$ 70,040

f. Employee benefits expense

	For the Year Ended December 31	
	2016	**2015**
Post-employment benefits		
Defined contribution plan	$ 425,860	$ 375,888
Defined benefit plan	858,616	575,654
	$ 1,284,476	$ 951,542
Other employee benefits		
Salary expenses	$ 18,931,016	$ 18,509,223
Personnel service expenses	5,249,939	4,806,080
	$ 24,180,955	$ 23,315,303
An analysis of employee benefits expense by function		
Operating costs	$ 20,827,112	$ 19,701,524
Operating expenses	4,638,319	4,565,321
	$ 25,465,431	$ 24,266,845

To be in compliance with the Company Act as amended in June 2016, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the years ended December 31, 2016 and 2015, the employees' compensation was $382,318 thousand and $1,810,196 thousand, respectively, of the base net profit. The employees' compensation in cash for the years ended December 31, 2016 and 2015 was approved by the Company's board of directors on January 17, 2017 and January 15, 2016, respectively.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date that the annual consolidated financial statements are authorized for issue are adjusted in the year that the bonuses and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2016 and 2015 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

29. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense (benefit) were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
Current year	$ 173,195	$ 209,185
Prior year adjustment	(159)	1,985
Income tax on unappropriated earnings	3,085	1
Deferred tax		
Current year	992,790	997,504
Income tax expense recognized in profit or loss	$ 1,168,911	$ 1,208,675

A reconciliation of accounting profit and income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax	$ 1,879,851	$ 7,134,885
Income tax expense calculated at the statutory rate (17%)	$ 319,574	$ 1,212,930
Effect on different tax of subsidiaries govern by other region	33,055	20,960
Effect on adjustment to income tax		
Non-deductible expenses in determining taxable income	145,181	16,798
Temporary differences	(478,805)	517,465
Tax-exempt income	(88,767)	(67,063)
Additional income tax under the Alternative Minimum Tax Act	3,085	1
Loss carryforwards - current used	(12,495)	(1,648,737)
Loss carryforwards - generated	235,828	108,570
Oversea income tax expense	19,624	57,378
Deferred tax		
Temporary differences	350,309	944,522
Unrecognized loss carryforwards, investment tax credits and temporary difference	642,481	43,866
Adjustments for prior years' tax	(159)	1,985
Income tax expense recognized in profit or loss	$ 1,168,911	$ 1,208,675

b. Income tax recognized in other comprehensive income

	2016	2015
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 19,101	$ (9,061)
Hedging instruments fair value revaluation for cash flow hedging	(53,056)	(365,220)
Actuarial gain or loss on defined benefit plan	159,935	115,062
Total income tax recognized in other comprehensive income	$ 125,980	$ (259,219)

c. Deferred tax assets and liabilities

For the year ended December 31, 2016

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plan	$ 1,789,811	$ (598,541)	$ 159,935	$ -	$ 1,351,205
Frequent flyer program	452,949	(31,254)	-	-	421,695
Maintenance reserve	1,037,489	212,586	-	-	1,250,075
Allowance for reduction of inventory	174,650	26,191	-	-	200,841
Others	894,828	(197,579)	(44,711)	(562)	651,976
Loss carryforward	2,838,688	(457,815)	-	-	2,380,873
	$ 7,188,415	$ (1,046,412)	$ 115,224	$ (562)	$ 6,256,665
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gain	$ 2,534	$ (2,534)	$ -	$ -	$ -
Depreciation difference from fixed assets	125,008	(39,059)	-	-	85,949
Others	213,139	(12,029)	(10,756)	(2,693)	187,661
	$ 340,681	$ (53,622)	$ (10,756)	$ (2,693)	$ 273,610

For the year ended December 31, 2015

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plan	$ 1,735,354	$ (50,813)	$ 105,270	$ -	$ 1,789,811
Frequent flyer program	432,196	20,753	-	-	452,949
Maintenance reserve	726,728	310,761	-	-	1,037,489
Allowance for reduction of inventory	150,185	24,465	-	-	174,650
Others	1,080,038	180,419	(365,243)	(386)	894,828
Loss carryforward	4,399,542	(1,560,854)	-	-	2,838,688
	$ 8,524,043	$ (1,075,269)	$ (259,973)	$ (386)	$ 7,188,415
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gain	$ 108,903	$ (106,369)	$ -	$ -	$ 2,534
Depreciation difference from fixed assets	126,488	(1,480)	-	-	125,008
Defined benefits plan	9,792	-	(9,792)	-	-
Others	178,406	20,968	9,038	4,727	213,139
	$ 423,589	$ (86,881)	$ (754)	$ 4,727	$ 340,681

Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets.

	December 31	
	2016	**2015**
Loss carryforwards		
2019	$ 7,300,000	$ 4,500,000
2020	22,020	95,682
2021	80,080	80,080
2022	125,568	125,538
2023	127,707	127,797
2024	233,693	233,703
2025	638,257	638,502
2026	1,126,110	-
	$ 9,653,435	$ 5,801,302
Difference in depreciation	$ 229,761	$ 6,743

d. Unused tax loss carryforwards as of December 31, 2016 were as follows:

Expiry Year	**Unused Amount**
China Airlines, Ltd.	
2019	$ 17,328,027
2021	2,899,496
2022	619,799
2026	117,099
	$ 20,964,421
Mandarin Airline Co., Ltd.	
2023	$ 50,917
2026	600,548
	$ 651,465
Tigerair Taiwan Co., Ltd.	
2024	$ 199,654
2025	586,357
2026	752,865
	$ 1,538,876
Cal Hotel Co., Ltd.	
2020	$ 22,020
2021	45,156
2022	9,617
	$ 76,793

(Continued)

Expiry Year	Unused Amount
Taiwan Air Cargo Terminal Limited	
2021	$ 34,923
2022	115,951
2023	102,248
2024	34,048
2025	33,775
2026	41,495
	$ 362,440
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	
2025	$ 18,124
2026	31,476
	$ 49,600
Hwa Hsia	
2026	$ 14,964

(Concluded)

e. Integrated income tax

	December 31	
	2016	2015
Imputation credit accounts	$ 102,527	$ 551,908

The actual creditable tax ratio on December 31, 2015 was 20.22%. The Company accumulated a deficit for which to be compensated for the year ended December 31, 2016, and therefore there was no tax deduction ratio resulting from earnings distribution.

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident stockholders of the Company was calculated based on the creditable ratio as of the date of dividend distribution.

f. Income tax assessment

The income tax returns for 2014 of the Company and its subsidiaries, except for the matters mentioned below, have been examined by the tax authorities.

The income tax return of TACT for 2001 was assessed by the tax authorities with an additional income tax payable amounting to $129,350 thousand for the excessive distribution of the imputation credit account ("ICA") to TACT's shareholder and a fine equivalent to one fold of the excessive distribution. TACT disagreed with the assessment and appealed for reinvestigation, administrative appeal and administrative proceedings but the Supreme Administrative Court affirmed the additional tax payment of $129,350 thousand on December 8, 2011, and TACT made the additional tax payment. Because the decision of the court on the amount of fine remained the same, TACT filed an administrative remedy, and the High Administrative Court had reached a decision on June 15, 2016, however, TACT refused to accept the resolution and appealed to the Supreme Administrative Court on July 4, 2016. Nevertheless, TACT recognized a provision for fine in the amount of $59,501 thousand.

30. EARNING PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

	For the Year Ended December 31	
	2016	2015
Basic earnings per share	$ 0.10	$ 1.06
Diluted earnings per share	$ 0.10	$ 1.00

	For the Year Ended December 31	
	2016	2015
Earnings used in the computation of basic earnings per share	$ 571,540	$ 5,763,714
Effect of potentially dilutive common shares:		
Interest on convertible bonds (after tax)	-	47,716
Earnings used in the computation of diluted earnings per share	$ 571,540	$ 5,811,430

	For the Year Ended December 31	
	2016	2015
Weighted average number of common shares in computation of basic earnings per share	5,468,002	5,432,728
Effect of potentially dilutive common shares:		
Convertible bonds	-	255,186
Employees’ compensation or bonus issue to employees	47,337	150,850
Weighted average number of common shares used in the computation of diluted earnings per share	5,515,339	5,838,764

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Group needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

32. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

Except as detailed in the following table, the management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements as approximating their fair values.

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 22,238,044	$ 22,580,069	$ 15,844,106	$ 16,459,680
Loans and debt	89,230,727	91,315,640	87,783,617	87,944,264

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of December 31, 2016 and 2015, the fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 1.191% and 0.433%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

2) Fair value measurements recognized in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 fair value measurements are those derived from 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); and

c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 1,200	$ -	$ 1,200
Beneficial certificates	415,441	-	-	415,441
	$ 415,441	$ 1,200	$ -	$ 416,641
Derivative financial assets for hedging	$ -	$ 61,634	$ 83	$ 61,717
Derivative financial liabilities for hedging	$ -	$ 23,629	$ -	$ 23,629

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 65,528	$ -	$ 65,528
Beneficial certificates	478,508	-	-	478,508
	$ 478,508	$ 65,528	$ -	$ 544,036
Available-for-sale financial assets				
Securities listed in domestic	$ 19,080	$ -	$ -	$ 19,080
Derivative financial assets for hedging	$ -	$ 51,060	$ 12,738	$ 63,798
Derivative financial liabilities for hedging	$ -	$ 12,702	$ 312,278	$ 324,980

There were no transfers between Levels 1 and 2 in the current periods.

d) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts and interest rate swaps	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

e) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

The fair values of foreign exchanges and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of foreign exchanges and fuel options.

Because some financial instruments and non-financial instruments cannot show their fair value, the total fair value showed by these disclosure are not total value of the Group.

b. Categories of financial instruments

	December 31	
	2016	2015
Financial assets		
Financial assets at FVTPL	$ 416,641	$ 544,036
Available-for-sale financial assets (Note 3)	140,357	242,991
Derivative financial assets for hedging	61,717	63,798
Loans and receivables (Note 1)	36,576,111	35,800,865
	$ 37,194,826	$ 36,651,690
Financial liabilities		
Derivative financial liabilities for hedging	$ 23,629	$ 324,980
Financial liabilities at amortized cost (Note 2)	130,110,449	125,241,381
	$ 130,134,078	$ 125,566,361

Note 1: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, accounts receivable - related parties, other receivables, refundable deposits, other financial assets and other restricted financial assets.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, part of other current liabilities, part of other noncurrent liabilities and guarantee deposits.

Note 3: The balances include financial assets measured at cost.

c. Financial risk management objectives and policies

The Group has risk management and hedging strategies to respond to changes in the economic and financial environment and in the fuel market. To reduce the financial risks from changes in interest, exchange rates and in fuel prices, the Group has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by the Group stockholders to reduce the impact of market price changes on earnings. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

In addition, the Group has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging percentage. This committee informs the Group of global economic and financial conditions, controls the entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

The Group is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

The Group enters into forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

The Group enters into foreign currency option contracts to hedge against the risks on change in related exchange rates, enters into forward contracts to hedge against the risks on changes in foreign-currency assets, liabilities and commitments in the related exchange rates.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

The following details the Group’s sensitivity to a one dollar increase or decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies (i.e. the U.S. dollar). This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for a one U.S. dollars increase/decrease against the New Taiwan dollar.

When the New Taiwan dollar strengthens one dollar against the U.S. dollar and all other variables were held constant, there would be a decrease in pre-tax profit in 2016 of $47,622 thousand and a decrease in pre-tax profit in 2015 of $157,849 thousand.

b) Interest rate risk

The Group enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates.

The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

The carrying amount of the Group’s financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2016	**2015**
Fair value interest rate risk	$ 26,093,421	$ 16,723,881
Cash flow interest rate risk	91,339,655	93,742,231

Sensitivity analysis

The sensitivity analyses below were determined based on the Group’s exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A one yard (25 basis) point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

Had interest rates been one yard (25 basis) points higher and had all other variables been held constant, the Group's pretax profit for the year ended December 31, 2016 would have decreased by $228,349 thousand.

Had interest rates increased one yard (25 basis) point and had all other variables been held constant, the Group's pretax profit for the year ended December 31, 2015 would have decreased by $63,464 thousand.

c) Other price risk

The Group was exposed to fuel price risk on its purchase of aviation fuel. The Group enters into fuel swaps contract to hedge against adverse risks on fuel price changes.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to fuel price risks at the end of the reporting period.

	For the Year Ended December 31			
	2016		2015	
	Pre-tax Profit Increase (Decrease)	Other Comprehensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Comprehensive Income Increase (Decrease)
Fuel price increase of 5%	$ 75	$ (110)	$ 10,084	$ (29,805)
Fuel price decrease of 5%	-	(185)	(10,188)	(110,077)

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Group has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers.

Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Group's finance department. The Group's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, the risk of Counterparties fail to discharge an obligation is low, therefore there is no significant credit risk.

3) Liquidity risk

The objective of the Group's management of liquidity is to maintain cash and cash equivalents are sufficient for operating purpose, marketable securities with high liquidity and sufficient Loan Commitments and ensure the Group has adequate financial flexibility.

Liquidity and interest risk rate tables

The following table shows the remaining contractual maturity analysis of the Group's financial liabilities with agreed-upon repayment periods, which were based on the date the Group may be required to pay the first repayment and financial liabilities is evaluated based on undiscounted cash flows, including cash flows of interest and principal.

Bank loans with a repayment on demand clause were included in the second column of the table below regardless of whether or not the banks would choose to exercise early their rights to repayment. The maturity dates for other non-derivative financial liabilities were based on the agreed-upon repayment dates. The Group's liquidity analysis for its derivative financial instruments is also shown in the following table. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross cash inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by yield curves at the end of the reporting period.

December 31, 2016

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.1462	$ 321,459	$ 962,542	$ 2,998,391	$ 648,913	$ -
Floating interest rate liabilities	1.192	4,426,559	27,023,603	15,047,722	32,803,858	7,340,794
Fixed interest rate liabilities	0.016	401,268	419,109	-	-	-
Derivative instruments	-	2,655	18,200	2,775	-	-
Bonds payable	1.3384	-	2,700,000	4,338,044	15,200,000	-
		$ 5,151,941	$ 31,123,454	$ 22,386,932	$ 48,652,771	$ 7,340,794

December 31, 2015

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.2934	$ 364,897	$ 1,101,266	$ 1,548,611	$ 3,647,955	$ -
Floating interest rate liabilities	1.325	6,987,461	22,453,633	33,930,613	20,588,242	2,225,669
Fixed interest rate liabilities	4.374	175,109	475,464	463,574	413,789	97,664
Derivative instruments	-	114,455	205,861	4,664	-	-
Bonds payable	1.3798	-	4,944,106	-	10,900,000	-
		$ 7,641,922	$ 29,180,330	$ 35,947,462	$ 35,549,986	$ 2,323,333

Loan commitments

	December 31	
	2016	2015
Unused bank loan limit (unsecured)	$ 14,424,006	$ 22,172,000

33. RELATED-PARTY TRANSACTIONS

The transactions, accounts balances, income and expenses between related parties were eliminated from the consolidated report and, therefore, were not disclosed in this note. Except for the disclosures stated in other notes, transactions between the Group and its related parties are disclosed below:

a. Operating transactions

	Sales of Goods		Purchases of Goods	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Associates	$ 2,552	$ 2,321	$ 657,104	$ 581,173
Jointly controlled entities	$ 14,325	$ 13,950	$ 1,613,899	$ 1,531,649
Major stockholders	$ 28,328	$ 34,835	$ 63,084	$ 78,374

The amount of accounts receivable - related parties at reporting dates were as follows:

	December 31	
	2016	2015
Associates	$ 500	$ 182
Jointly controlled entities	1,550	599
Major stockholders	1,512	3,093
	$ 3,562	$ 3,874

The amount of accounts payable - related parties at reporting dates were as follows:

	December 31	
	2016	2015
Associates	$ 120,824	$ 98,245
Jointly controlled entities	431,502	388,371
Major stockholders	3,503	7,138
	$ 555,829	$ 493,754

The outstanding accounts payable from related parties are unsecured and will be paid in cash, the terms of making collections and payables is from 30 days to 90 days; accounts receivable from related parties does not gather any deposit, and no expense was recognized for allowance for impairment loss.

b. Lease of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental on usage hours. In 2016 and 2015, the Company had paid rentals of about $63,084 thousand and $78,374 thousand, respectively.

c. Endorsements and guarantees

	December 31			
	2016		2015	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
Cal Park	$ 3,850,000	$ 2,783,000	$ 3,400,000	$ 2,739,000
Taiwan Air Cargo Terminal	1,080,000	436,418	1,080,000	486,815
Freighter Prince Ltd.	-	-	236,629	236,629
Cal Hotel	180,000	-	180,000	6,343
Tigerair Taiwan	919,742	438,740	937,895	447,399

d. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	$ 47,748	$ 45,813
Post-employment benefits	12,269	3,865
	$ 60,017	$ 49,678

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

34. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for long-term bank loans, lease obligations and business transactions:

	December 31	
	2016	2015
Property, plant and equipment	$ 77,847,771	$ 90,642,565
Restricted assets - noncurrent		
Pledged certificate deposits	323,028	268,790
US treasury bill	-	236,634
	$ 78,170,799	$ 91,147,989

The above US Treasury bill had been pledged as collaterals for Freighter Prince Ltd., which classified as restricted assets - noncurrent.

35. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2016, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate purchase prices of US$3,933,235 thousand and US$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of December 31, 2016, four of the aircrafts had been handed over to the Company, and the total list price of the remaining ten aircrafts was US$2,839,377 thousand, which has been paid in the amount of US$637,908 thousand (recognized as prepayments for aircrafts).

b. For the future development of the Company's business, the Company entered into a lease contract with BOC Aviation with a letter to lease six 737-800 aircrafts. The expected delivery period would begin from September 2016. As of December 31, 2016, four of the aircrafts have been handed over to the Company.

c. Tigerair Taiwan entered into a lease contract for four A320-200 aircrafts with a 10-year lease term on July, November and December 2015. Two of the four aircrafts were delivered in January and June 2016. The expected delivery date of the remaining aircrafts are in February and December 2017.

d. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. The total estimated expense of the construction project was $8,490,000 thousand. The designated start of the project was from 2004 and the construction began in 2008. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

   The original total expenditure of the previous main construction project was $8,490,000 thousand. However, TACT filed an arbitration for the total amount of expenditure in 2012 to revise the total amount to $6,840,000 thousand.

As of December 31, 2016, TACT had signed the following construction contracts with unrelated parties:

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	$ 552,285
Chen-Jia Construction Co.	Paint steel columns and roof renewal works Contract	86,380

As of December 31, 2016, the cumulated consultant service expense and construction equipment had amounted to $464,642 thousand (VAT included) and $4,952,609 thousand (VAT included), respectively. Upon completion of the projects, the amount of $459,850 thousand (VAT included) and $4,874,635 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

Assets acquired from cargo terminal improvements, equipment acquisition and subsequent equipment acquisition and replacement will be transferred to the government without any compensation when the chartered operating license expires.

e. TACT should pay royalties to Taoyuan Airport Corporation and CAA during the chartered operation period. The calculation is based on annual sales (including operating revenue and nonoperating revenue but excluding the rental revenue from specific district), and Taoyuan Airport Corporation and CAA has the option to adjust the royalty rates every 3 years starting from the date of transfer of the chartered operation right on the basis of actual revenue and expenditure. These rates were listed as follows:

Annual Operating Amount	Royalty Rate
Below $2 billion	6.00%
Above $2 billion but below $4 billion	8.00%
Above $4 billion but below $6 billion	10.00%
Above $6 billion but below $8 billion	12.00%
Above $8 billion but below $10 billion	14.00%
Above $10 billion but below $12 billion	16.00%
Above $12 billion	18.00%

f. CAL Park Co., Ltd. ("CAL Park") signed "Taiwan Taoyuan International Airport Aviation Operation Center (including Airport Hotel) Construction Operating Contract" with the CAA on September 20, 2006. However, on November 1, 2010, the Taoyuan Airport Corporation took over the CAA's rights on this contract from the CAA. The contract is effective for 50 years (consisting of the development stage and operating period) from the contract date. Three years before contract expiry date, CAL Park has the first option to renew the contract once with a 20-year extension.

CAL Park's business scope includes providing business and other operating space related to civil air transport, hotels, aviation service and related industries adhered to the base and essential services law and approved by the Taoyuan Airport Corporation.

CAL Park should pay land rentals on the date of the registration of surface rights. The rental rates for the development stage differ from those for the operation period. The rental rates should follow Article No. 2 of the "Regulations for Favorable Rentals Regarding Public Land Lease and Superficies in Infrastructure Projects," which states that rental calculation in the development stage should include the land value added tax plus the necessary maintenance fee; in the operation period, rentals are 60% of the amount based on the National Building Land Rental Standard plus land value tax, value-added tax and the necessary maintenance fee.

CAL Park should pay construction and operation security deposits of $100,000 thousand (using a refundable certificate deposit recognized under deposits-in). If CAL Park complies with the contract terms within three months after the initial operation date, half of the security deposits will be refunded interest free, and the remaining amount will be refunded within three months after the end of the operating period and the completion of asset transfer. In May 2011, CAL Park received the refunded security deposits of $50,000 thousand without interest.

During the 50 years beginning from the initial operation date of CAL Park to the end of the construction period, CAL Park should pay royalties based on the operating revenue estimated in the financial plan of its investment execution proposal. If the sales and business tax declared and filed by a business entity for a single year exceeds 10% of the operating revenue as estimated in the financial plan in its investment execution proposal, CAL Park should pay additional royalties at 10% of this excess.

CAL Park should submit the asset transfer plan within five years before the expiry date of the chartered operation period, begin the negotiation of the asset transfer contract, and complete the assignation no later than three years before the expiry date of the chartered period. If CAA decides not to keep the building and equipment on the base area, CAL Park should remove all related building and equipment within three months after the expiry date.

g. The Group has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action lawsuit filed at the U.S. Northern District Court of California by a group of passengers who alleged that there was an antitrust violation in December 2007. The Company has properly joined the defendants' Joint Defense Group.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 310,384	32.2581	$ 10,012,403
EUR	15,665	34.0136	532,807
HKD	273,060	4.1580	1,135,385
JPY	5,138,687	0.2770	1,423,417
CNY	483,548	4.6425	2,244,088
Financial liabilities			
Monetary items			
USD	259,145	32.2581	8,359,536
EUR	6,512	34.0136	221,486
HKD	94,831	4.1580	394,306
JPY	4,442,045	0.2770	1,230,446
CNY	137,773	4.6425	639,614

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 371,091	32.8947	$ 12,206,940
EUR	16,153	35.9712	569,778
HKD	230,469	4.2445	978,224
JPY	1,769,067	0.2731	483,136
CNY	2,105,839	5.0659	10,667,121
Financial liabilities			
Monetary items			
USD	153,815	32.8947	5,059,699
EUR	8,353	35.9712	299,732
HKD	87,413	4.2445	371,024
JPY	4,632,721	0.2731	1,265,198
CNY	150,973	5.0659	764,813

For the years ended December 31, 2016 and 2015, the Group's net foreign exchange gains (losses) were $(629,965) thousand and $244,045 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

37. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:

1) Financing provided: None

2) Endorsement/guarantee provided: Table 1 (attached)

3) Marketable securities held: Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

5) Acquisition of individual real estates at costs or price of at least NT$100 million or 20% of the paid-in capital: None

6) Disposal of individual real estates at costs or prices of at least NT$100 million or 20% of the paid-in capital: None

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 3 (attached)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached)

9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached)

10) Derivative financial transactions (Notes 7 and 9)

b. Investment in Mainland China: Table 6 (attached)

c. Business relationship and important transactions between China Airlines, Ltd. and its subsidiaries: Table 7 (attached)

38. SEGMENT INFORMATION

a. Segment information

The Group mainly engages in air transportation services for passengers and cargo; the services include airport service, storage service, and other air transportation services which are below the financial threshold for an operating segment of the Group. Therefore, the Group's main reportable segment is air transportation. The accounting policies of the reportable segment are consistent with the accounting policies described in Note 4.

	For the Year Ended December 31, 2016			
	Air Transportation	**Others**	**Adjustment and Write-off**	**Total**
Operating revenue	$ 139,471,090	$ 7,873,653	$ (6,265,636)	$ 141,079,107
Operation profit and losses	$ 3,614,617	$ 950,070	$ -	$ 4,564,687
Interest revenue				242,801
Investment income accounted for by the equity method				536,986
Revenue				535,162
Financial cost				(1,292,865)
Expense				(2,706,920)
Profit before income tax				$ 1,879,851
Identifiable assets	$ 132,546,517	$ 9,666,123		$ 142,212,640
Investment accounted for by the equity method				2,866,431
Assets				79,421,688
Total assets				$ 224,500,759

	For the Year Ended December 31, 2015			
	Air Transportation	Others	Adjustment and Write-off	Total
Operating revenue	$ 144,223,961	$ 7,526,765	$ (6,694,509)	$ 145,056,217
Operation profit and losses	$ 7,264,754	$ 843,152	$ 21,291	$ 8,129,197
Interest revenue				466,923
Investment income accounted for by the equity method				516,140
Revenue				3,038,744
Financial cost				(1,783,793)
Expense				(3,232,326)
Profit before income tax				$ 7,134,885
Identifiable assets	$ 122,602,185	$ 9,671,914	$ (53)	$ 132,274,046
Investment accounted for by the equity method				2,877,777
Assets				86,774,486
Total assets				$ 221,926,309

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2016 and 2015 are listed below:

	For the Year Ended December 31, 2016								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 40,063,516	$ 27,017,443	$ 30,470,044	$ 11,770,672	$ 5,047,106	$ 19,267,568	$ 13,708,394	$ (6,265,636)	$ 141,079,107
Operation profit and losses	$ 1,305,147	$ (215,992)	$ (429,148)	$ (19,411)	$ 89,410	$ 1,560,699	$ 2,273,982	$ -	$ 4,564,687
Interest revenue									242,801
Investment income accounted for by the equity method									536,986
Revenue									535,162
Interest expense									(1,292,865)
Expense									(2,706,920)
Profit before income tax									$ 1,879,851
Identifiable assets	$ 1,434,169	$ 17,785	$ 98,711	$ 5,160	$ 3,026	$ 13,740	$ 140,640,049	$ -	$ 142,212,640
Investment accounted for by the equity method									2,866,431
Assets									79,421,688
Total assets									$ 224,500,759

	For the Year Ended December 31, 2015								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 43,255,614	$ 26,519,512	$ 31,150,308	$ 12,529,410	$ 4,318,055	$ 20,470,330	$ 13,507,497	$ (6,694,509)	$ 145,056,217
Operation profit and losses	$ 2,439,067	$ 1,321,000	$ (827,756)	$ 69,964	$ 229,823	$ 2,141,393	$ 2,734,416	$ 21,290	$ 8,129,197
Interest revenue									466,923
Investment income accounted for by the equity method									516,140
Revenue									3,038,744
Interest expense									(1,783,793)
Expense									(3,232,326)
Profit before income tax									$ 7,134,885
Identifiable assets	$ 1,459,834	$ 11,477	$ 145,471	$ 5,229	$ 4,354	$ 14,091	$ 130,633,643	$ (53)	$ 132,274,046
Investment accounted for by the equity method									2,877,777
Assets									86,774,486
Total assets									$ 221,926,309

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limit on Each Counter-party's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	$ 11,156,763	$ 3,850,000	$ 3,850,000	$ 2,783,000	$ -	6.90	$ 27,891,909	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,156,763	1,080,000	1,080,000	436,418	-	1.94	27,891,909	Y	N	N
		Freighter Prince Ltd.	100% subsidiary	11,156,763	240,586	-	-	-	-	27,891,909	Y	N	N
		Cal Hotel	100% subsidiary	11,156,763	180,000	180,000	-	-	0.32	27,891,909	Y	N	N
		Tigerair Taiwan Ltd.	90% subsidiary by direct and indirect holdings	11,156,763	953,579	919,742	438,740	-	1.65	27,891,909	Y	N	N

Note 1: Based on the Company's guidelines, the maximum amount of guarantee to an individual counter-party is up to 20% of the Company's stockholders' equity.

Note 2: Based on the Company's guidelines, the allowable aggregate amount of collateral guarantee is up to 50% of the Company's stockholders' equity.

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Number of Shares/Units	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines ("Parent company")	Stock							
	Everest Investment Holdings Ltd. - common stock	-	Financial assets carried at cost - noncurrent	1,359,368	$ 52,704	13.59	$ 64,474	Note 1
	Everest Investment Holdings Ltd. - preferred stock	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	21,487	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	6,921	-
Mandarin Airlines	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	19,294	-	19,294	-
	Beneficiary certificates							
	Fuh Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	15,302,543	184,235	-	184,235	-
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	32,361	-	32,361	-
Cal-Asia Investment	Stock							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	-	5.83	(48,552)	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	20,157	5.45	24,577	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Mirae Asset Solomon Money Market Fund	-	Financial assets at fair value through profit or loss - current	265,726	3,321	-	3,321	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,637,003	57,584	-	57,584	-
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,360,663	54,855	-	54,855	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,360,289	50,900	-	50,900	-
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	155,632	27,502	-	27,502	-
Taiwan Airport Services	Stock							
	TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,277,786	-	0.4	-	-
Hwa Hsia	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	814,152	7,572	-	7,572	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,683	-	4,683	-

Note 1: The subsidiary's net asset value was $64,474 thousand, which included common stock and preferred stock as of and for the year ended December 31, 2016.

Note 2: The Company does not issue stocks because it is a limited company.

TABLE 3

CHINA AIRLINES, LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd.	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 427,875	0.38	30 days	$ -	-	$ (43,767)	(2.99)	-
(“China Airlines”)	Hua Hsia	Subsidiary	Purchase	314,048	0.28	2 months	-	-	(55,480)	(3.79)	-
	Mandarin Airlines	Subsidiary	Sale	(2,575,551)	2.02	2 months	-	-	377,970	4.06	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,504,966	1.34	90 days	-	-	(411,698)	(28.14)	-
	Cal Park	Subsidiary	Purchase	217,210	0.19	2 months	-	-	(57,018)	(3.90)	-
	Taiwan Airport Services	Subsidiary	Purchase	369,255	0.33	40 days	-	-	(61,101)	(4.18)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,148,069	1.02	40 days	-	-	(323,510)	(22.11)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	291,814	0.26	60 days	-	-	(68,324)	(4.67)	-
	China Aircraft Services	Equity-method investee	Purchase	210,390	0.19	30 days	-	-	(34,786)	(2.38)	-
	Cal Hotel	Subsidiary	Purchase	180,110	0.16	1 month	-	-	(17,772)	(1.21)	-
	Tigerair Taiwan	Subsidiary	Sale	(313,019)	0.25	1 month	-	-	37,418	0.40	-
	China Pacific Laundry Services	Equity-method investee	Purchase	108,933	0.10	2 months	-	-	(19,804)	(1.35)	-

TABLE 4

CHINA AIRLINES, LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	$ 377,970	5.76	$ -	-	$ 208,856	$ -
Mandarin Airlines	China Airlines	Parent company	227,693	0.36	-	-	18,230	-
China Pacific Catering Services	China Airlines	Parent company	411,698	3.85	-	-	265,889	-
Taoyuan International Airport Service	China Airlines	Parent company	323,510	3.63	-	-	323,510	-

Note: Transactions with subsidiaries have been written off in consolidated financial report.

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	$ 1,500,000	$ 1,500,000	150,000,000	100.00	$ 1,529,375	$ 18,551	$ 18,551	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,125,057	(227,787)	(215,240)	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,261,894	25,537	13,791	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,244,328	29,135	29,135	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	638,980	407,920	208,039	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	649,189	277,247	135,850	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	450,305	(47,074)	(47,074)	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	438,502	186,479	175,169	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	515,051	255,141	51,028	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	279,176	448,224	109,815	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	231,316	116,081	54,966	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	267,371	211,499	75,674	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	387,375	73,500	73,500	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	214,745	150,654	18,633,937	26.00	257,928	100,522	26,136	Note 5
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	167,048	39,324	21,628	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	71,534	19,412	19,037	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,464	304	304	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	30,961	5,139	2,621	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,418	6,783	1,695	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	32	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	32	-	-	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,600,000	1,600,000	160,000,000	80.00	362,861	(778,025)	(622,420)	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	160,000	60,000	16,000,000	100.00	110,128	(31,603)	(31,603)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	45,358	(778,025)	(77,803)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	3,574	469,755	1.08	5,261	116,081	1,003	Note 4
Cal-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK$ 3,329	HK$ 3,329	1,050,000	35.00	42,948	16,049	5,617	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	349,211	19,581	19,581	Note 3

Note 1: Adopted the treasury stock method in recognizing investment income or loss.

Note 2: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 3: The Company does not issue stocks because it is a limited company.

Note 4: Have acquired non-controlling interests of Taiwan Airport Services from September 2015.

Note 5: On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common stock for cash and with the date of right issues granted on was December 25, 2015. The board of Company has reached an agreement to purchase $64,091 thousand which had been remitted to SPL by December 31, 2015. SPL completed the registration of this subscription on January 22, 2016.

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars/Renminibi/U.S. Dollars, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,042,154 (RMB 224,480)	Indirect (Note 1)	$ 135,031 (US$ 4,186)	$ -	$ 41,831 (US$ 1,297)	$ 93,200 (US$ 2,889)	$ 48,972 (RMB 10,549)	14.00	$ 7,153 (RMB 1,477)	$ 234,169 (RMB 50,440)	$ 90,379 (US$ 2,802) (Note 4)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,995 (RMB 14,000)	Indirect (Note 1)	62,821 (US$ 1,947)	-	18,258 (US$ 566)	44,563 (US$ 1,381)	84,691 (RMB 18,242)	14.00	12,371 (RMB 2,554)	115,330 (RMB 24,842)	28,236 (US$ 875) (Note 4)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,190,000 (US$ 36,890)	Indirect (Note 1)	69,394 (US$ 2,151)	-	-	69,394 (US$ 2,151)	-	5.83	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	376,226 (US$ 11,663)	Indirect (Note 1)	20,516 (US$ 636)	-	-	20,516 (US$ 636)	-	5.45	-	20,157 (RMB 4,342)	-
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	100,000 (US$ 3,100)	Indirect (Note 2)	8,000 (US$ 248)	-	-	8,000 (US$ 248)	-	8.00	-	-	-
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	32,258 (US$ 1,000)	Indirect (Notes 3 and 8)	5,532 (US$ 172)	-	-	5,532 (US$ 172)	-	-	-	-	-

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$241,194 (US$7,477)	$464,423 (Note 5)	$34,720,319 (Note 6)

(Continued)

Taiwan Airport Services

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2016	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,042,154 (RMB 224,480)	Indirect (Note 7)	$ 132,516 (US$ 4,108)	$ -	$ -	$ 132,516 (US$ 4,108)	$ 48,972 (RMB 10,549)	14.00	$ 7,154 (RMB 1,477)	$ 232,872 (RMB 50,160)	$ 122,785 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,995 (RMB 14,000)	Indirect (Note 7)	62,161 (US$ 1,927)	-	-	62,161 (US$ 1,927)	84,691 (RMB 18,242)	14.00	12,371 (RMB 2,554)	115,558 (RMB 24,891)	45,374 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$191,778 (US$5,945)	$191,778 (US$5,945)	$293,115 (Note 6)

Note 1: China Airlines, Ltd. the "Company" invested in Cal-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: The Company invested in China Aircraft Services, which in turn, invested in a company located in mainland China.

Note 3: Cal-Asia Investment invested in Eastern United International Logistics (Holdings), which in turn, invested in a company located in mainland China.

Note 4: The inward remittance of earnings in 2016 amounted to US$2,801,749 and US$875,330.

Note 5: The amount comprised US$12,655,978, RMB4,200,000 and NT$36,666,667.

Note 6: The limit stated in the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjustment Rule," is the larger of the Company's net asset value or 60% of the consolidated net asset value.

Note 7: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 8: Eastern United International Logistics (Holdings) Ltd. had disposed the investee company, and the company was preparing for declaration to Investment Commission.

Note 9: The RMB and U.S. dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)

TABLE 7

CHINA AIRLINES, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINE, LTD. AND ITS SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Global Sky Express	a	Other operating revenue	$ 80,891	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Passenger revenue	2,207,698	The same as ordinary transactions	1.56
		Taiwan Air Cargo Terminal	a	Other operating revenue	12,270	The same as ordinary transactions	0.01
		Mandarin Airlines	a	Other operating revenue	367,853	The same as ordinary transactions	0.26
		Taoyuan International Airport Services	a	Other operating revenue	3,013	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Other operating revenue	8,570	The same as ordinary transactions	0.01
		Taiwan Airport Services	a	Other operating revenue	10,970	The same as ordinary transactions	0.01
		Hwa Hsia	a	Other operating revenue	9,391	The same as ordinary transactions	0.01
		Dynasty Holidays	a	Other operating revenue	1,793	The same as ordinary transactions	-
		Global Sky Express	a	Other operating revenue	2,520	The same as ordinary transactions	-
		Yestrip	a	Other operating revenue	14,820	The same as ordinary transactions	0.01
		Cal Hotel	a	Other operating revenue	5,808	The same as ordinary transactions	-
		Tigerair Taiwan	a	Other operating revenue	313,019	The same as ordinary transactions	0.22
		Taiwan Aircraft Maintenance and Engineering	a	Other operating revenue	13,299	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	a	Terminal and landing fees	1,148,069	The same as ordinary transactions	0.81
		Taiwan Airport Services	a	Terminal and landing fees	369,255	The same as ordinary transactions	0.26
		Hwa Hsia	a	Terminal and landing fees	314,048	The same as ordinary transactions	0.22
		Mandarin Airlines	a	Passenger costs	87,823	The same as ordinary transactions	0.06
		Tigerair Taiwan	a	Passenger costs	12,070	The same as ordinary transactions	0.01
		Taiwan Air Cargo Terminal	a	Other operating cost	427,875	The same as ordinary transactions	0.30
		Dynasty Holidays	a	Other operating cost	47,590	The same as ordinary transactions	0.03
		Cal-Dynasty International	a	Other operating cost	58,094	The same as ordinary transactions	0.04
		Yestrip	a	Other operating cost	16,904	The same as ordinary transactions	0.01
		Cal Park	a	Other operating cost	217,210	The same as ordinary transactions	0.15
		Cal Hotel	a	Other operating cost	180,111	The same as ordinary transactions	0.13
		Sabre Travel Network Taiwan	a	Operating expense	2,926	The same as ordinary transactions	-
		Mandarin Airlines	a	Interest expense	1,785	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Interest expense	357	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	a	Accounts receivable - related parties	1,021	The same as ordinary transactions	-
		Mandarin Airlines	a	Accounts receivable - related parties	377,970	The same as ordinary transactions	0.17
		Sabre Travel Network Taiwan	a	Accounts receivable - related parties	914	The same as ordinary transactions	-
		Global Sky Express	a	Accounts receivable - related parties	2,887	The same as ordinary transactions	-
		Yestrip	a	Accounts receivable - related parties	13,547	The same as ordinary transactions	0.01
		Cal Hotel	a	Accounts receivable - related parties	535	The same as ordinary transactions	-
		Tigerair Taiwan	a	Accounts receivable - related parties	37,418	The same as ordinary transactions	0.02
		Taiwan Aircraft Maintenance and Engineering	a	Accounts receivable - related parties	977	The same as ordinary transactions	-

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
		Taiwan Airport Services	a	Accounts receivable - related parties	$ 677	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	a	Accounts payable - related parties	43,767	The same as ordinary transactions	0.02
		Mandarin Airlines	a	Accounts payable - related parties	227,693	The same as ordinary transactions	0.10
		Taoyuan International Airport Services	a	Accounts payable - related parties	323,510	The same as ordinary transactions	0.14
		Sabre Travel Network (Taiwan)	a	Accounts payable - related parties	16	The same as ordinary transactions	-
		Taiwan Airport Services	a	Accounts payable - related parties	61,101	The same as ordinary transactions	0.03
		Hwa Hsia	a	Accounts payable - related parties	55,480	The same as ordinary transactions	0.02
		Yestrip	a	Accounts payable - related parties	3,376	The same as ordinary transactions	-
		Cal Hotel	a	Accounts payable - related parties	17,772	The same as ordinary transactions	0.01
		Cal Park	a	Accounts payable - related parties	57,018	The same as ordinary transactions	0.03
		Tigerair Taiwan	a	Accounts payable - related parties	1,446	The same as ordinary transactions	-
		Mandarin Airlines	a	Interest payable	1,785	The same as ordinary transactions	-
		Sabre Travel Network (Taiwan)	a	Interest payable	357	The same as ordinary transactions	-
		Mandarin Airlines	a	Bond payable - noncurrent	250,000	The same as ordinary transactions	0.11
		Sabre Travel Network (Taiwan)	a	Bond payable - noncurrent	50,000	The same as ordinary transactions	0.02
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	427,875	The same as ordinary transactions	0.30
		Mandarin Airlines	c	Sales revenue	14,656	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	c	Sales revenue	7,628	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Operating costs	12,270	The same as ordinary transactions	0.01
		Hwa Hsia	c	Operating costs	11,679	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	43,767	The same as ordinary transactions	0.02
		China Airlines, Ltd.	b	Accounts payable - related parties	1,021	The same as ordinary transactions	-
		Taoyuan International Airport Services	c	Accounts receivable - related parties	797	The same as ordinary transactions	-
		Mandarin Airlines	c	Accounts receivable - related parties	1,484	The same as ordinary transactions	-
		Hwa Hsia	c	Accounts payable - related parties	1,110	The same as ordinary transactions	-
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	87,823	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Passenger costs	2,207,698	The same as ordinary transactions	1.56
		Taiwan Airport Services	c	Terminal and landing fees	105,426	The same as ordinary transactions	0.07
		Taoyuan International Airport Services	c	Terminal and landing fees	38,719	The same as ordinary transactions	0.03
		Taiwan Air Cargo Terminal	c	Terminal and landing fees	14,656	The same as ordinary transactions	0.01
		Hwa Hsin	c	Terminal and landing fees	1,105	The same as ordinary transactions	-
		Tigerair Taiwan	c	Operating revenue	5,868	The same as ordinary transactions	-
		Tigerair Taiwan	c	Accounts receivable - related parties	249	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Operating expense	367,853	The same as ordinary transactions	0.26
		China Airlines, Ltd.	b	Interest revenue	1,785	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Notes accounts payable - related parties	227,693	The same as ordinary transactions	0.10
		China Airlines, Ltd.	b	Interest receivable	1,785	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes accounts payable - related parties	377,970	The same as ordinary transactions	0.17
		Taiwan Airport Services	c	Notes accounts payable - related parties	13,208	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	c	Accounts payable - related parties	3,439	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	c	Accounts payable - related parties	1,484	The same as ordinary transactions	-

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
3	Taoyuan International Airport Services	Mandarin Airlines	c	Airport service revenue	$ 38,719	The same as ordinary transactions	0.03
		Tigerair Taiwan	c	Airport service revenue	90,318	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Airport service revenue	1,148,069	The same as ordinary transactions	0.81
		China Airlines, Ltd.	b	Operating expense	3,013	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	c	Operating costs	7,628	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts receivable - related parties	323,510	The same as ordinary transactions	0.14
		Mandarin Airlines	c	Accounts receivable - related parties	3,439	The same as ordinary transactions	-
		Tigerair Taiwan	c	Accounts receivable - related parties	11,657	The same as ordinary transactions	0.01
		Taiwan Air Cargo Terminal	c	Accounts payable - related parties	797	The same as ordinary transactions	-
4	Cal-Dynasty International	China Airlines, Ltd.	b	Operating revenue	58,094	The same as ordinary transactions	0.04
5	Sabre Travel Network Taiwan	China Airlines, Ltd.	b	Service revenue	2,926	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Operating expense	8,570	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Interest revenue	357	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts receivable - related parties	16	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Interest receivable	357	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Held-to-maturity financial assets	50,000	The same as ordinary transactions	0.02
		China Airlines, Ltd.	b	Accounts payable - related parties	914	The same as ordinary transactions	-
6	Taiwan Airport Services	China Airlines, Ltd.	b	Operating revenue	369,255	The same as ordinary transactions	0.26
		Mandarin Airlines	c	Operating revenue	105,426	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Operating expense	10,970	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	61,101	The same as ordinary transactions	0.03
		China Airlines, Ltd.	b	Accounts payable - related parties	677	The same as ordinary transactions	-
		Mandarin Airlines	c	Accounts receivable - related parties	13,208	The same as ordinary transactions	0.01
7	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	314,048	The same as ordinary transactions	0.22
		Taiwan Air Cargo Terminal	c	Operating revenue	11,679	The same as ordinary transactions	0.01
		Mandarin Airlines	c	Operating revenue	1,105	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Operating expense	9,391	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	55,480	The same as ordinary transactions	0.02
		Taiwan Air Cargo Terminal	c	Accounts receivable - related parties	1,110	The same as ordinary transactions	-
8	Dynasty Holidays	China Airlines, Ltd.	b	Operating revenue	47,590	The same as ordinary transactions	0.03
		China Airlines, Ltd.	b	Operating expense	1,793	The same as ordinary transactions	-
9	Global Sky Express	China Airlines, Ltd.	b	Operating costs	80,891	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Operating expense	2,520	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	2,887	The same as ordinary transactions	-
10	Yestrip	China Airlines, Ltd.	b	Operating revenue	16,904	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating expense	14,280	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	3,367	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	13,547	The same as ordinary transactions	0.01

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
11	Cal Park	China Airlines, Ltd.	b	Operating revenue	$ 217,210	The same as ordinary transactions	0.15
		Cal Hotel	c	Operating revenue	82,256	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Accounts receivable - related parties	57,018	The same as ordinary transactions	0.03
		Cal Hotel	c	Accounts receivable - related parties	294	The same as ordinary transactions	-
12	Cal Hotel	China Airlines, Ltd.	b	Operating revenue	180,111	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Operating expense	5,808	The same as ordinary transactions	-
		Cal Park	c	Operating costs	82,256	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Accounts receivable - related parties	17,772	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts payable - related parties	535	The same as ordinary transactions	-
		Cal Park	c	Accounts payable - related parties	294	The same as ordinary transactions	-
13	Tigerair Taiwan	China Airlines, Ltd.	b	Operating expense	313,019	The same as ordinary transactions	0.22
		China Airlines, Ltd.	b	Passenger revenue	12,070	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	1,446	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	37,418	The same as ordinary transactions	0.02
		Mandarin Airlines	c	Operating expense	5,868	The same as ordinary transactions	-
		Mandarin Airlines	c	Accounts payable - related parties	249	The same as ordinary transactions	-
		Taoyuan International Airport Services	c	Terminal and landing fees	90,318	The same as ordinary transactions	0.04
		Taoyuan International Airport Services	c	Accounts payables	11,657	The same as ordinary transactions	0.01
14	Taiwan Aircraft Maintenance and Engineering	China Airlines, Ltd.	b	Operating expense	13,299	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts payable - related parties	977	The same as ordinary transactions	-

Note 1: Three kinds of business relationships between China Airline, Ltd. and its subsidiaries were as follows:

a. Parent to subsidiaries.
b. Subsidiaries to parent.
c. Subsidiaries to subsidiaries.

Note 2: Intercompany transactions were written off in consolidated financial report.

(Concluded)