China Airlines, Ltd.

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis for Opinion

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

Key Audit Matters

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

<u>Deferred Income Tax Assets</u>

Due to suffering tax losses in previous years, the Company was granted loss carryforwards which can be used against taxable income in a certain period. The Company 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 Company recognized tax losses as deferred tax assets, in New Taiwan dollars (NT$), in the amount of NT$2,322,951 thousand. Refer to Notes 4, 5 and 27 in the accompanying financial statement for the related detailed information.

The difference between the amount representative of the Company's financial position and its tax base are material to the 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 Company'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.

<u>Non-current Assets Held for Sale</u>

The board of directors of the Company 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 12 in the accompanying financial statements for the related detailed information.

Due to the lack of an open trading market for aircrafts, the range of disposal prices for 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 by obtaining reference prices from authoritative publications recognized within the aviation industry, historical selling prices of similar types of aircrafts, and the suggested price proposed by a broker and observing the subsequent transactions.

2. Discussing the status of the transaction with the department accountable for disposing of aircrafts, and reviewing whether the correspondences and the latest quote were consistent with the market value estimated by management.

<u>Acquisition Costs of a New Fleet</u>

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$111,179,027 thousand. Refer to Notes 4, 5, and 14 in the accompanying financial statements for the related detailed information.

Since the Company introduced a brand new fleet of A350-900s this year, the adjusted allocation base should be applied. Moreover, the carrying amount of flight equipment 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.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 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 financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

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

CHINA AIRLINES, LTD.

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 and 30)	$ 19,734,590	9	$ 18,507,429	9
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	1,200	-	163,847	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 30)	51,403	-	45,744	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 30)	7,825,504	4	7,207,984	4
Notes and accounts - related parties (Notes 30 and 31)	439,509	-	546,141	-
Other receivables	833,754	1	762,988	-
Current tax assets (Notes 4 and 27)	21,652	-	7,124	-
Inventories, net (Notes 4 and 11)	8,338,980	4	8,203,921	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	185,100	-	670,455	-
Other current assets (Note 17)	2,476,800	1	1,788,406	1
Total current assets	39,908,492	19	37,904,039	18
NONCURRENT ASSETS				
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 30)	-	-	1,710	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 30)	3,268	-	11,216	-
Financial assets carried at cost - noncurrent (Notes 9 and 30)	120,200	-	126,125	-
Investments accounted for by the equity method (Notes 4 and 13)	10,051,325	5	11,007,620	5
Property, plant and equipment (Notes 4, 5, 14 and 32)	129,121,632	61	118,446,472	57
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	1,115,101	-	990,307	1
Deferred tax assets (Notes 4, 5 and 27)	5,749,714	3	6,690,802	3
Other noncurrent assets (Notes 17, 20, 30, 32 and 33)	23,422,263	11	31,917,111	15
Total noncurrent assets	171,630,951	81	171,238,811	82
TOTAL	$ 211,539,443	100	$ 209,142,850	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bills payable (Note 18)	$ 900,000	1	$ -	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 30)	20,854	-	301,912	-
Notes and accounts payable (Note 30)	638,876	-	1,000,050	-
Notes and accounts payable - related parties (Notes 30 and 31)	1,347,007	1	1,347,675	1
Other payables (Notes 21 and 26)	9,634,022	5	10,722,052	5
Current tax liabilities (Notes 4 and 27)	2	-	10,572	-
Deferred revenue - current (Notes 4, 5 and 22)	13,404,227	6	11,951,128	6
Bonds payable and put option of convertible bonds - current (Notes 4, 19, 25, 30 and 31)	2,700,000	1	4,944,106	2
Loans and debts - current (Notes 18, 30 and 32)	31,816,140	15	29,683,086	14
Capital lease obligations - current (Notes 4, 20, 30 and 32)	1,254,000	1	1,428,467	1
Other current liabilities (Note 30)	2,624,677	1	3,336,477	2
Total current liabilities	64,339,805	31	64,725,525	31
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 30)	2,775	-	11,291	-
Bonds payable - noncurrent (Notes 4, 19, 25, 30 and 31)	19,838,044	9	10,900,000	5
Loans and debts - noncurrent (Notes 18, 30 and 32)	52,833,478	25	53,849,371	26
Provisions - noncurrent (Notes 4, 5 and 23)	6,770,951	3	5,033,257	2
Deferred tax liabilities (Notes 4 and 27)	114,772	-	172,451	-
Capital lease obligations - noncurrent (Notes 4, 20, 30 and 32)	3,562,000	2	5,079,133	3
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,808,903	1	1,863,929	1
Net defined benefit liabilities - noncurrent (Notes 4, 5 and 24)	6,217,346	3	8,965,529	4
Other noncurrent liabilities (Note 30)	267,552	-	272,468	-
Total noncurrent liabilities	91,415,821	43	86,147,429	41
Total liabilities	155,755,626	74	150,872,954	72
EQUITY (Notes 19 and 25)				
Share capital	54,708,901	26	54,708,901	26
Capital surplus	799,932	-	798,415	1
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	55,783,817	26	58,269,896	28
TOTAL	$ 211,539,443	100	$ 209,142,850	100

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

CHINA AIRLINES, LTD.

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 4, 26 and 31)	$ 127,524,864	100	$ 133,441,725	100
COSTS (Notes 4, 8, 11, 24, 26 and 31)	112,248,884	88	115,817,924	87
GROSS PROFIT	15,275,980	12	17,623,801	13
OPERATING EXPENSES (Notes 4, 24 and 26)	10,800,273	9	9,738,704	7
OPERATING PROFIT	4,475,707	3	7,885,097	6
NONOPERATING LOSS				
Other income (Notes 9 and 26)	593,451	1	2,949,765	2
Other losses (Notes 8, 12, 14 and 26)	(2,410,921)	(2)	(2,900,099)	(2)
Finance cost (Notes 8, 26 and 32)	(1,221,588)	(1)	(1,711,983)	(1)
Share of the profit of associates and joint ventures (Note 13)	100,602	-	615,042	-
Total nonoperating loss	(2,938,456)	(2)	(1,047,275)	(1)
PRETAX PROFIT	1,537,251	1	6,837,822	5
INCOME TAX EXPENSE (Notes 4, 5 and 27)	965,711	1	1,074,108	1
NET INCOME	571,540	-	5,763,714	4
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 24)	(589,382)	-	(541,691)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(234,797)	-	(81,484)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	100,195	-	92,088	-

(Continued)

CHINA AIRLINES, LTD.

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	$ (80,104)	-	$ 67,886	-
Cash flow hedges (Notes 4 and 25)	300,109	-	2,153,292	1
Share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(4,057)	-	(6,397)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 25 and 27)	(37,401)	-	(375,366)	-
Other comprehensive income (loss) for the year, net of income tax	(545,437)	-	1,308,328	1
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 26,103	-	$ 7,072,042	5
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic	$ 0.10		$ 1.06	
Diluted	$ 0.10		$ 1.00	

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

CHINA AIRLINES, LTD.

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

			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 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
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
Convertible bonds converted to common shares	2,217,235	317,889	-	-	-	-	-	-	-	2,535,124
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(1,609)	-	-	-	-	(1,609)
Net income for the year ended December 31, 2015	-	-	-	-	5,763,714	-	-	-	-	5,763,714
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
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	1,783,568	-	7,072,042
BALANCE AT DECEMBER 31, 2015	54,708,901	798,415	-	-	2,872,235	157,959	1,755	(225,997)	(43,372)	58,269,896
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)
Appropriation of 2015 earnings										
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-
Cash dividends - $0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103
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

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

CHINA AIRLINES, LTD.

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		
Pretax profit	$ 1,537,251	$ 6,837,822
Adjustments to reconcile pretax profit to net cash generated from operating activities:		
Debt expenses	49,878	46,500
Depreciation expenses	16,588,758	16,266,952
Amortization expenses	138,554	60,044
Net (gain) loss on fair value change of financial assets and liabilities held for trading	29,909	(150,714)
Interest income	(188,006)	(367,360)
Dividend income	(59,099)	(1,883,826)
Share of profit of associates and joint ventures	(100,602)	(615,042)
Loss on disposal of financial assets carried at cost	346	-
Gain on disposal of property, plant and equipment and noncurrent assets held for sale	(54,188)	(13,137)
Loss on inventories and property, plant and equipment	207,019	388,738
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	1,065,626	2,468,372
Net loss (gain) on foreign currency exchange	(10,773)	427,715
Loss on repurchase of bonds payable	41,943	-
Finance costs	1,221,588	1,711,983
Recognition of provisions	2,011,115	1,620,216
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	134,448	31,969
Decrease on derivative financial assets for hedging	13,096	-
Decrease (increase) in notes and accounts receivable	(785,159)	1,619,067
Decrease (increase) in accounts receivable - related parties	106,633	(49,269)
Increase in other receivables	(61,401)	(232,794)
Increase in inventories	(359,928)	(1,281,193)
Increase in other current assets	(355,393)	(319,672)
Increase (decrease) in notes and accounts payable	(353,373)	864,228
Decrease in accounts payable - related parties	(668)	(94,291)
Increase (decrease) in other payables	(1,490,845)	436,951
Increase in deferred revenue	1,398,073	1,522,238
Decrease in provisions	(366,218)	(3,560)
Increase in other current liabilities	275,042	360,431
Decrease in accrued pension liabilities	(3,337,565)	(246,731)
Cash generated from operations	17,281,549	29,391,125
Interest received	178,640	388,351
Dividends received	893,380	2,663,110
Interest paid	(1,121,355)	(1,725,744)
Income tax paid	(44,606)	(51,742)
Net cash generated from operating activities	17,187,608	30,665,100

(Continued)

CHINA AIRLINES, LTD.

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 of the sale of financial assets measured at cost	$ 5,579	$ -
Proceeds of share redemption of financial assets measured at cost	-	245,242
Acquisition of derivative financial assets for hedging	-	(13,096)
Acquisition of investments accounted for by the equity method	(100,000)	(124,091)
Payments for property, plant and equipment	(9,347,785)	(6,175,287)
Proceeds of the disposal of property, plant and equipment	514,561	18,700
Proceeds from disposal of noncurrent assets held for sale	384,285	-
Increase in refundable deposits	(146,408)	(423,231)
Decrease in refundable deposits	167,312	644,532
Increase in prepayments for equipment	(17,573,019)	(13,382,155)
Refund in prepayments for aircraft	5,693,791	10,186,049
Increase in computer software costs	(265,615)	(400,737)
Decrease in restricted assets	206,714	53,543
Net cash used in investing activities	(20,460,585)	(9,370,531)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	-	(4,160,000)
(Decrease) increase in short-term bills payable	900,000	(1,998,138)
Proceeds from issue of bonds payable	10,000,000	-
Exercise of put option of bonds payable	(994,705)	-
Repayments of bonds payable	(2,400,000)	(9,025,000)
Proceeds of long-term debts	34,499,000	16,020,000
Repayments of long-term debts and capital lease obligations	(35,052,725)	(19,181,883)
Proceeds of guarantee deposits received	98,282	71,540
Refund of guarantee deposits received	(76,477)	(68,653)
Dividends paid to owners of the Company	(2,508,525)	-
Net cash generated from (used in) financing activities	4,464,850	(18,342,134)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	35,288	(273,494)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,227,161	2,678,941
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	18,507,429	15,828,488
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 19,734,590	$ 18,507,429

The accompanying notes are an integral part of the 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) 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 both December 31, 2016 and 2015, CADF and NDF held a combined 43.63% of the Company's shares. As of December 31, 2016 and 2015, the Company had 12,648 and 12,437 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements 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 Company 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 Company's accounting policies, except for the following:

- 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 Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 and/or 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 the present value technique.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Company 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 Company'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 Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that amendments to IFRS 4 (of which only the overlay approach can be applied), 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 Company'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 Company'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 Company 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 Company 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.

Hedge accounting

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 Company 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 Company 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 Company 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 Company as lessor.

When IFRS 16 becomes effective, the Company 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 Company 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 Company 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 Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company 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 Company 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 Company enters into contracts with its customers. In each contract, each product or service has its stand-alone selling price. Under the contract, the Company 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 Company 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 Company 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 Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis of Preparation

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

When preparing its parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for by the equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and related equity items, as appropriate, in the parent company only financial statements.

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.

Foreign Currencies

In preparing the financial statements of the Company, 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 financial statements, the assets and liabilities of the Company'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.

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 Accounted for by the Equity Method

Investments in subsidiaries, associates and jointly controlled entities are accounted for by the equity method.

a. Investment in subsidiaries

Subsidiaries (including special purpose entities) are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and side stream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

b. Investments in associates and joint ventures

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

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

Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and jointly ventures. The Company also recognizes the changes in the Company's share of equity of associates and jointly ventures attributable to the Company.

When the Company subscribes for additional new shares of the associate and joint ventures at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint ventures. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate and jointly controlled entity, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint ventures 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 Company's share of losses of an associate and joint ventures equals or exceeds its interest in that associate and joint ventures 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 Company's net investment in the associate and joint ventures entity, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint ventures.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate and joint ventures 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 Company'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.

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 forms part of 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 Company discontinues the use of the equity method from the date on which it ceases to have significant influence and joint control. 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 jointly controlled entity 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 jointly controlled entity. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Company transacts with its associate and joint ventures, profits and losses resulting from the transactions with the associate are recognized in the Company' financial statements only to the extent of interests in the associate and the jointly controlled entity that are not related to the Company.

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 subsequent accumulated depreciation and subsequent 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.

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 Company 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 Company 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 Company 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 Company 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 30.

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 Company'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 Company 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 Company 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 Company's assets minus all liabilities. Equity instruments issued by the Company 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 Company 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 Company 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 Company 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 Company recognizes provisions when the Company 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.

<u>Aircraft lease contracts</u>

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 Company 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 Company 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 Company 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 Company 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 Company 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 Company'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 Company'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 income statement.

   The Company'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 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 Company 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 Company 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 Company's accounting policies, 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 Company 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 Company 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 Company 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 Company'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 Company 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 quotes of potential buyers, and the market price of similar assets.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash on hand and revolving fund	$ 34,129	$ 68,883
Checking accounts and demand deposits	7,208,550	4,385,543
Cash equivalents		
Time deposits with original maturities of less than three months	3,078,150	14,053,003
Repurchase agreements collateralized by bonds	9,413,761	-
	$ 19,734,590	$ 18,507,429

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

	December 31	
	2016	**2015**
Bank balance	0.08%-2%	0.13%-1.7%
Time deposits with original maturities of less than three months	1.3%-12.9%	0.48%-7.25%
Repurchase agreements collateralized by bonds	0.42%-1.40%	-

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

	December 31	
	2016	**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	-	100,029
	$ 1,200	$ 163,847
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. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2016	2015
Derivative financial assets under hedge accounting		
Cash flow hedges		
Foreign exchange forward contracts	$ 54,671	$ 44,222
Currency options	-	12,403
Fuel options	-	335
	$ 54,671	$ 56,960
Current	$ 51,403	$ 45,744
Noncurrent	3,268	11,216
	$ 54,671	$ 56,960
Derivative financial liabilities under hedge accounting		
Cash flow hedges		
Interest rate swaps	$ 3,855	$ 12,702
Foreign exchange forward contracts	19,774	-
Currency options	-	12,660
Fuel options	-	287,841
	$ 23,629	$ 313,203
Current	$ 20,854	$ 301,912
Noncurrent	2,775	11,291
	$ 23,629	$ 313,203

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

a. Interest rate swaps

The Company 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 Company entered into currency options 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	2016.01.8-2016.12.09	JPY3,446,570/USD28,400
Sell USD put option	JPY/USD	2016.01.8-2016.12.09	JPY3,364,604/USD28,400

c. Fuel options

The Company 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, 2015			
Buy fuel call options	USD	2016.01.31-2016.07.31	NTD335
Sell fuel put options	USD	2016.01.31-2016.07.31	NTD287,841

Based on the Taiwan Stock Exchange's regulation for 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 option contracts only have nominal amounts.

d. Foreign exchange forward

The Company entered into foreign exchange forward contracts to minimize the risk of changes in foreign currency rates on the 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	2017.01.13-2018.10.25	NTD5,019,355/USD155,600
December 31, 2015			
Buy forward contracts	NTD/USD	2016.01.22-2017.05.23	NTD822,368/USD25,000

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

	For the Year Ended December 31	
	2016	2015
Increase in operating cost	$ (345,675)	$ (2,581,321)
Increase in finance cost	(10,390)	(7,151)
Other gain and losses - foreign exchange gain	(71,630)	31,857
	$ (427,695)	$ (2,556,615)

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

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2016		2015	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Unlisted common stocks				
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 52,704	14
Jardine Air Terminal Services	56,023	15	56,023	15
Chung Hwa Express Co.	11,000	11	11,000	11
Regal International Advertising	-	-	5,925	6
	119,727		125,652	
Unlisted preferred stocks				
Everest Investment Holdings Ltd. (AH)	473	-	473	-
	$ 120,200		$ 126,125	

(Continued)

	December 31			
	2016		2015	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 120,200		$ 126,125	

(Concluded)

The Company and the Asian airlines 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 AH Company resolved to return the gain on the disposal to stockholders by cash dividends and share redemptions, and this resolution was also approved. The Company received cash dividends of $1,660,687 thousand and share redemptions of $245,242 thousand. AH Company changed its name to Everest Investment Holdings Ltd. after the disposal of its aforementioned subsidiary.

The unlisted common shares held by the Company are measured at cost less impairment losses at the reporting date. Because a reasonable estimate of the fair value range is significant and cannot be reasonably assessed, the Company's management believes that its fair value cannot be reliably measured.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Notes receivable	$ 522,523	$ 343,647
Accounts receivable		
Accounts receivable	7,450,185	6,964,125
Less: Allowance for impairment loss	(147,204)	(99,788)
	7,302,981	6,864,337
	$ 7,825,504	$ 7,207,984

The average credit period was 7 to 45 days. In determining the recoverability of an account receivable, the Company 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. Any allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Company's past default experience with the counterparty and an analysis of the counterparty's current financial position.

Movements in the allowance for impairment loss recognized on notes receivable and accounts receivable were as follow:

	For the Year Ended December 31	
	2016	2015
Beginning balance	$ 99,788	$ 55,093
Impairment loss of accounts receivable	49,878	46,500
Less: Amounts written off as uncollectable	(2,462)	(1,805)
Ending Balance	$ 147,204	$ 99,788

11. INVENTORIES

	December 31 2016	December 31 2015
Aircraft spare parts	$ 7,625,731	$ 7,552,829
Items for in-flight sale	546,565	507,603
Work in process - maintenance services	166,684	143,489
	$ 8,338,980	$ 8,203,921

The cost of inventories recognized as operating costs due to write-downs of inventories was $196,000 thousand and $151,688 thousand in 2016 and 2015, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

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

To enhance its competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts according to a planned schedule. From August 2015, the board of directors resolved to sell several aircrafts. These aircrafts were reclassified as non-current assets held for sale, and the difference between the original carrying amount and the expected sale price was recognized as an impairment loss of $347,868 thousand and $1,899,372 thousand in 2016 and 2015, respectively. However, the actual amount of loss should be identified according to the actual sale price. Thus, the loss on the disposal was $26,429 thousand in 2016. The abovementioned measurement of fair value was a Level 3 measurement which referred to the second-hand market and the conditions of aircrafts.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31 2016	December 31 2015
Investments in subsidiaries	$ 7,925,771	$ 8,892,482
Investments in associates	1,319,526	1,248,135
Investments in jointly controlled entities	806,028	867,003
	$ 10,051,325	$ 11,007,620

a. Investment in subsidiaries

	December 31 2016	December 31 2015
Unlisted companies		
Cal Park	$ 1,529,375	$ 1,510,824
Mandarin Airlines	1,125,057	1,367,156
Cal-Dynasty International	1,244,328	1,239,445

(Continued)

	December 31	
	2016	2015
Taiwan Air Cargo Terminal	$ 1,261,894	$ 1,260,095
Tigerair Taiwan Co., Ltd.	362,861	977,323
Taoyuan International Airport Services	649,189	722,143
Cal-Asia Investment	450,305	604,029
Sabre Travel Network (Taiwan)	438,502	438,101
Cal Hotel	387,375	313,875
Taiwan Airport Services	231,316	262,493
Hwa Hsia	71,534	89,858
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	110,128	41,731
Yestrip	25,464	29,152
Dynasty Holidays	30,961	28,544
Global Sky Express	7,418	7,647
Freighter Princess Ltd.	32	33
Freighter Prince Ltd.	32	33
	$ 7,925,771	$ 8,892,482

(Concluded)

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Company were as follows:

	December 31	
	2016	2015
Tigerair Taiwan Co., Ltd.	80%	80%
Taiwan Air Cargo Terminal	54%	54%
Cal Park	100%	100%
Mandarin Airlines	94%	94%
Cal-Dynasty International	100%	100%
Taoyuan International Airport Services	49%	49%
Cal-Asia Investment	100%	100%
Sabre Travel Network (Taiwan)	94%	94%
Taiwan Airport Services	47%	47%
Cal Hotel	100%	100%
Hwa Hsia	100%	100%
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	100%	100%
Dynasty Holidays	51%	51%
Yestrip	100%	100%
Global Sky Express	25%	25%
Freighter Princess Ltd.	100%	100%
Freighter Prince Ltd.	100%	100%

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 subsidiaries, Freighter Princess Ltd. and Freighter Prince Ltd., were established for leasing the Company's aircrafts. On its balance sheets, the Company recognized the fixed assets and liabilities related to the leased aircrafts as leasing transactions.

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

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

The share of profit or loss of subsidiaries recognized under the equity method was as follows:

	2016	2015
The share of profit or loss	$ (391,718)	$ 146,472

b. Investments in associates

	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
	1,319,526	1,184,044
Prepayments of long-term investments - Science Park Logistics	-	64,091
	$ 1,319,526	$ 1,248,135

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.

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Company were as follows:

	December 31	
	2016	2015
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	25%	25%
Science Park Logistics	26%	28%

The share of profit or loss of associates recognized under the 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
	$ 262,653	$ 214,079

c. 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 percentages of ownership and voting rights in jointly controlled entities held by the Company were as follows:

	December 31	
	2016	2015
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%

The Company signed a joint venture agreement with the Taikoo Company 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 Company does not have control.

The share of profit or loss of jointly ventures recognized under the equity method were as follows:

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

The Company's shares of other comprehensive income of subsidiaries, associates and jointly controlled entities were $(238,854) thousand and $(87,881) thousand in 2016 and 2015, respectively.

The investments in jointly controlled entities accounted for by the equity method and the Company'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. However, the Company's management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

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 the Notes to Financial Statements.

14. PROPERTY, PLANT AND EQUIPMENT

	December 31 2016	December 31 2015
Cost		
Freehold land	$ 193,013	$ 193,013
Buildings	7,277,753	7,323,803
Flight equipment	246,308,549	228,454,181
Equipment under finance leases	28,307,255	27,481,679
Machinery equipment	4,335,044	4,180,095
Office equipment	732,839	699,420
Leasehold improvements	984,668	1,000,947
Construction in progress	23,676	11,575
	$ 288,162,797	$ 269,344,713
Accumulated depreciation and impairment		
Buildings	$ 3,550,002	$ 3,449,160
Flight equipment	135,129,522	128,886,336
Equipment under finance leases	15,347,140	13,715,235
Machinery equipment	3,532,640	3,432,009
Office equipment	612,787	580,340
Leasehold improvements	869,074	835,161
	$ 159,041,165	$ 150,898,241
Net value	$ 129,121,632	$ 118,446,472

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2015	$ 193,013	$ 7,314,028	$ 230,661,285	$ 33,379,391	$ 5,929,872	$ 277,477,589
Additions	-	37,830	5,632,381	394,939	110,137	6,175,287
Disposals	-	(28,645)	(3,083,547)	(550,429)	(210,516)	(3,873,137)
Reclassification	-	590	(4,755,938)	(5,742,222)	62,544	(10,435,026)
Balance at December 31, 2015	$ 193,013	$ 7,323,803	$ 228,454,181	$ 27,481,679	$ 5,892,037	$ 269,344,713
Accumulated depreciation and impairment						
Balance at January 1, 2015	$ -	$ (3,289,776)	$ (121,708,296)	$ (16,542,230)	$ (4,758,859)	$ (146,299,161)
Depreciation expense	-	(176,506)	(13,719,690)	(2,073,963)	(296,793)	(16,266,952)
Disposals	-	17,144	2,876,688	550,429	208,223	3,652,484
Impairment losses	-	-	(569,000)	-	-	(569,000)
Reclassification	-	(22)	4,233,962	4,350,529	(81)	8,584,388
Balance at December 31, 2015	$ -	$ (3,449,160)	$ (128,886,336)	$ (13,715,235)	$ (4,847,510)	$ (150,898,241)

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2016	$ 193,013	$ 7,323,803	$ 228,454,181	$ 27,481,679	$ 5,892,037	$ 269,344,713
Additions	-	61,704	7,951,452	1,014,523	320,106	9,347,785
Disposals	-	(108,160)	(6,336,888)	(393,403)	(158,177)	(6,996,628)
Reclassification	-	406	16,239,804	204,456	22,261	16,466,927
Balance at December 31, 2016	$ 193,013	$ 7,277,753	$ 246,308,549	$ 28,307,255	$ 6,076,227	$ 288,162,797
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ (3,449,160)	$ (128,886,336)	$ (13,715,235)	$ (4,847,510)	$ (150,898,241)
Depreciation expense	-	(174,689)	(14,058,579)	(2,031,998)	(323,492)	(16,588,758)
Disposals	-	73,847	5,609,896	393,403	155,518	6,232,664
Impairment losses	-	-	(717,758)	-	-	(717,758)
Reclassification	-	-	2,923,255	6,690	983	2,930,928
Balance at December 31, 2016	$ -	$ (3,550,002)	$ (135,129,522)	$ (15,347,140)	$ (5,014,501)	$ (159,041,165)

(Concluded)

The above items of 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 and 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
Flight equipment and equipment under finance leases	
Airframes	18-25 years
Aircraft cabins	10-20years
Engines	12-20 years
Heavy maintenance on aircrafts	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	8-12 years
Repairable spare parts	3-15 years
Improvement of aircrafts	5-12 years

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

Refer to Note 32 for the carrying amounts of property, plant and equipment pledged by the Company.

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

15. INVESTMENT PROPERTIES

	December 31	
	2016	2015
Carrying amount		
Investment properties	$ 2,047,448	$ 2,047,448

The investment properties (land) held by the Company located in Nankan were leased to others.

The fair value of the investment properties held by the Company was $2,316,300 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 Company’s investment properties were held under freehold interest.

16. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2015	$ 1,119,318	$ (469,704)	$ 649,614
Additions	400,737	-	400,737
Amortization expense	-	(60,044)	(60,044)
Balance at December 31, 2015	$ 1,520,055	$ (529,748)	$ 990,307
Balance at January 1, 2016	$ 1,520,055	$ (529,748)	$ 990,307
Additions	265,615	-	265,615
Amortization expense	-	(138,554)	(138,554)
Reclassification	(2,267)	-	(2,267)
Balance at December 31, 2016	$ 1,783,403	$ (668,302)	$ 1,115,101

The above items of other intangible assets were amortized on a straight-line basis over 2-10 years.

17. OTHER ASSETS

	December 31	
	2016	2015
Current		
Temporary payments	$ 166,236	$ 527,289
Prepayments	2,091,371	874,452
Others	219,193	386,665
	$ 2,476,800	$ 1,788,406

(Continued)

	December 31	
	2016	2015
Noncurrent		
Prepayments for aircrafts	$ 20,942,278	$ 28,714,476
Prepayments - long-term	1,939,929	2,392,347
Refundable deposits	521,229	559,510
Restricted assets	-	236,634
Other financial assets	18,827	14,144
	$ 23,422,263	$ 31,917,111

(Concluded)

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 A350-900 aircrafts purchase contracts, refer to Note 33. The rights to purchase the six confirmed orders of 777-300ER 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 Company was refunded with deposits for the aircraft purchases.

18. BORROWINGS

a. Short-term bills payable

	December 31	
	2016	2015
Commercial paper	$ 900,000	$ -
Less: Unamortized discount on bills payable	-	-
	$ 900,000	$ -
Annual discount rate	0.758%	-

b. Long-term debts

	December 31	
	2016	2015
Unsecured bank loans	$ 31,183,999	$ 31,225,000
Secured bank loans	16,329,805	21,097,986
Commercial paper		
Proceeds from issue	37,200,000	31,275,000
Less: Unamortized discount	64,186	65,529
	84,649,618	83,532,457
Less: Current portion	31,816,140	29,683,086
	$ 52,833,478	$ 53,849,371

For information on secured bank loans which were secured by buildings, machinery equipment and flight equipment, refer to Note 32.

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	$ 46,464,267	$ 32,536
December 31, 2015	48,282,617	122,827
Translated to New Taiwan dollars		
December 31, 2016	46,464,267	1,049,537
December 31, 2015	48,282,617	4,040,369
Interest rates		
December 31, 2016	0.92%-1.60%	0.8539%-4.39%
December 31, 2015	1.1432%-1.83%	0.4067%-4.39%
Periods		
December 31, 2016	2005/3/4-2028/10/18	2005/1/18-2017/9/21
December 31, 2015	2004/12/16-2021/3/12	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 Company to guarantee commercial paper which it issued. The commercial paper was issued at discount rates of 1.0510%-1.4580% in 2016 and 1.2407%-1.5833% in 2015.

19. BONDS PAYABLE

	December 31	
	2016	2015
Secured corporate bonds - first issue 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	5,000,000	-
Unsecured corporate bonds second-time issued in 2016	5,000,000	-
Convertible bonds - fifth issue	1,638,044	2,544,106
	22,538,044	15,844,106
Less: Current portion and put option of convertible bonds	2,700,000	4,944,106
	$ 19,838,044	$ 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	2011.5.20-2016.5.20	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	2011.5.20-2016.5.20	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	2011.5.20-2016.5.20	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	2011.5.20-2016.5.20	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	2013.1.17-2018.1.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	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	Unless bonds are converted to share capital or redeemed, principal repayable one time in December 2018; 1.8245% discount rate p.a.	-

In May 2016, the Company made a first issue of 2016 private unsecured bonds with an aggregate face value of $5,000,000 thousand. The investors included the following affiliates: Mandarin Airlines and Sabre Travel Network (Taiwan). These investors held $300,000 thousand of the face value in aggregate which would be written off in the consolidation financial report.

The Company made the fifth issue of unsecured convertible bonds, and the issue conditions are 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 put options on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" on December 26, 2015. The Company paid a total of $994,705 thousand to the holders who exercised the put options, and the difference between the payment amount and carrying amount was recognized as a loss of $41,943 thousand. When the options expired, the remaining amount of bonds payable were reclassified as non-current liabilities.

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, the conversion price was adjusted to NT$11.64, and corporate bonds with a face value of $3,315,700 thousand were 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 for the liability component was 1.8245% per annum on initial recognition.

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

20. CAPITAL LEASE OBLIGATIONS

a. Sale-leasebacks - finance leases

	December 31	
	2016	2015
Minimum lease payments - aircrafts		
Not later than one year	$ 1,254,000	$ 1,428,467
Later than one year and not later than five years	3,562,000	5,079,133
Present value of minimum lease payments	$ 4,816,000	$ 6,507,600
Current	$ 1,254,000	$ 1,428,467
Noncurrent	3,562,000	5,079,133
	$ 4,816,000	$ 6,507,600
Interest rate	1.0323%-1.0980%	1.1828%-1.5667%

As of December 31, 2016, the Company entered into sale-leaseback contracts for leasing 4 aircrafts including A330-300 and B747-400 aircrafts under finance leases. The lease terms are from June 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 transaction. Interest rate underlying all obligations under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Operating leases (including sale-leasebacks - operating leases)

The Company rented planes, headquarters, and hangars under various operating lease contracts expiring on various dates until May 2028. The Company does not have a bargain purchase option to acquire the leased planes and hangars at the expiration of the lease periods.

The rental rates stated in the aircraft lease agreements are fixed or 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 Company has rented eleven A330-300 aircrafts, thirteen 737-800 aircrafts and ten 777-300ER aircrafts under operating contracts; the lease terms range from 8 to 12 years.

As of December 31, 2016 and 2015, the refundable deposits paid by the Company under operating lease contracts were $293,188 thousand and $329,155 thousand, respectively. Part of the refundable deposits is secured by credit guarantees. The credit guarantees were $1,459,935 thousand and $1,213,309 thousand, respectively.

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

	December 31	
	2016	2015
Up to 1 year	$ 9,889,910	$ 8,571,767
Over 1 year to 5 years	38,106,256	31,781,215
Over 5 years	33,266,660	32,297,131
	$ 81,262,826	$ 72,650,113

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	$ 9,662,625	$ 7,210,055

21. OTHER PAYABLES

	December 31	
	2016	2015
Fuel costs	$ 2,490,290	$ 1,879,615
Ground handling service expenses	1,543,174	1,792,920
Maintenance expenses	848,200	871,757
Interest expenses	288,038	255,933
Short-term employee benefits	1,668,366	3,045,476
Terminal surcharges	668,710	702,261
Commission expenses	391,857	450,492
Others	1,735,387	1,723,598
	$ 9,634,022	$ 10,722,052

22. DEFERRED REVENUE

	December 31	
	2016	2015
Frequent flyer program	$ 2,427,565	$ 2,610,666
Advance ticket sales	12,785,565	11,204,391
	$ 15,213,130	$ 13,815,057
Current	$ 13,404,227	$ 11,951,128
Noncurrent	1,808,903	1,863,929
	$ 15,213,130	$ 13,815,057

23. PROVISIONS

	December 31	
	2016	2015
Operating leases - aircrafts	$ 6,770,951	$ 5,033,257

The Company rented flight equipment under operating lease agreements. Under the contracts, when the Company returns an aircraft to the lessor, the flight equipment has to be repaired on the basis of operating years and flight hours, flight cycle and the number of engine revolutions. For these contracts, the Company recognizes a provision after entering into the lease contracts or during the lease terms.

	Aircraft Lease Contract
Balance at January 1, 2015	$ 3,416,601
Additional provisions recognized	1,620,216
Usage	(3,560)
Balance at December 31, 2015	$ 5,033,257
Balance at January 1, 2016	$ 5,033,257
Additional provisions recognized	2,011,115
Usage	(366,218)
Effect of exchange rate changes	92,797
Balance at December 31, 2016	$ 6,770,951

24. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company 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.

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

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

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 11,176,204	$ 10,769,419
Fair value of plan assets	(4,958,858)	(1,803,890)
Net defined benefit liability	$ 6,217,346	$ 8,965,529

Movements in net defined benefit liability 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	$ 10,523,038	$ (1,852,469)	$ 8,670,569
Service cost			
Current service cost	301,607	-	301,607
Net interest expense (income)	177,835	(28,564)	149,271
Recognized in profit or loss	479,442	(28,564)	450,878
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(25,230)	(25,230)
Actuarial loss - changes in financial assumptions	94,375	-	94,375
Actuarial loss - experience adjustments	472,546	-	472,546
Recognized in other comprehensive income	566,921	(25,230)	541,691
Contributions from the employer	-	(582,644)	(582,644)
Benefits paid	(799,982)	685,017	(114,965)
Balance at December 31, 2015	10,769,419	(1,803,890)	8,965,529
Service cost			
Current service cost	639,972	-	639,972
Net interest expense (income)	114,773	(18,079)	96,694
Recognized in profit or loss	754,745	(18,079)	736,666
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(4,826)	(4,826)
Actuarial gain - changes in financial assumptions	(147,479)	-	(147,479)
Actuarial loss - experience adjustments	741,687	-	741,687
Recognized in other comprehensive income	594,208	(4,826)	589,382
Contributions from the employer	-	(3,908,253)	(3,908,253)
Benefits paid	(776,190)	776,190	-
Payment to employees direct from the employer	(165,978)	-	(165,978)
Balance at December 31, 2016	$ 11,176,204	$ (4,958,858)	$ 6,217,346

Through the defined benefit plans under the Labor Standards Law, the Company 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. Based on relevant regulations, the return generated by plan assets should not be below the interest rate for a two-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. Thus, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligations.

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	1.29%	1.11%
Expected rate of salary increase	1.00%	1.00%

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	**2015**
Discount rate		
0.5% increase	$ (496,081)	$ (475,494)
0.5% decrease	$ 538,301	$ 515,961
Expected rate of salary increase		
0.5% increase	$ 517,191	$ 495,727
0.5% decrease	$ (485,527)	$ (465,377)

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	$ 691,530	$ 583,456
The average duration of the defined benefit obligation	10 years	9.9 years

25. 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 amounting to $2,713,900 thousand for which convertible bond holders can apply for conversion, and the common shares exchanged were 221,724 thousand which are entitled to have their registration changed after the issuance of new shares.

b. Capital surplus

	December 31	
	2016	2015
Issue of stock in excess of par value and conversion premium	$ 552,470	$ 552,470
Employee stock options expired	11,747	11,747
Long-term investments	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
Other	85,339	-
	$ 799,932	$ 798,415

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

The capital surplus from long-term investments and employee stock options expired and dividends distributed to subsidiaries may not be used for any purpose, expect for offsetting a deficit. As for capital surplus from conversion of 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 25 of the 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.

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, and unappropriated deficits of $3,161,115 thousand. Therefore, the remaining amount of accumulated deficit was $3,864,876 thousand. The Company offset the accumulated deficit against the legal reserve of $1,511,953 thousand before compensation. No bonus to employees was appropriated for 2014 because of the net loss in that year.

Appropriation of earnings in 2015

The appropriations resolved in the stockholders' meeting on June 24, 2016 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

Compensation of 2016 deficit

On March 30, 2017, the board of directors proposed to use a capital surplus of $81,132 thousand to offset the Company's deficit. The compensation should be resolved in the stockholders' meeting held on June 22, 2017.

d. Other 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 at January 1, 2015	$ 99,852	$ 4,015	$ (2,009,565)	$ (1,905,698)
Exchange differences arising on translating the foreign operations	67,886	-	-	67,886
Cash flow hedge on change in fair value	-	-	(403,323)	(403,323)

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Total
Cumulative gain arising on changes in fair value of hedging instruments reclassified to profit or loss	$ -	$ -	$ 2,556,615	$ 2,556,615
Share of associates accounted for using the equity method	(473)	(2,260)	(3,664)	(6,397)
Effect of income tax	(9,306)	-	(366,060)	(375,366)
Balance at December 31, 2015	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Balance at January 1, 2016	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Exchange differences arising on translating the foreign operations	(80,104)	-	-	(80,104)
Cash flow hedge on change in fair value	-	-	(282,556)	(282,556)
Cumulative gain arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	582,665	582,665
Share of associates accounted for using the equity method	(12,909)	(41)	8,893	(4,057)
Effect of income tax	13,618	-	(51,019)	(37,401)
Balance at December 31, 2016	$ 78,564	$ 1,714	$ 31,986	$ 112,264

(Concluded)

e. Treasury shares

Treasury shares, which 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
For the year ended December 31, 2016			
Company's shares held by its subsidiaries reclassified from investment in shares to treasury shares	2,889	-	2,889
For the year ended December 31, 2015			
Company's shares held by its subsidiaries reclassified from investment in shares to treasury shares	2,889	-	2,889

The Company's shares held by its subsidiaries as the ended of the reporting periods were as follows:

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

The above acquisitions of the Company's shares by subsidiaries in previous years were based on investment planning.

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

26. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2016	2015
Passenger	$ 86,298,238	$ 87,908,718
Cargo	35,353,349	39,916,992
Others	5,873,277	5,616,015
	$ 127,524,864	$ 133,441,725

b. Other income

	For the Year Ended December 31	
	2016	2015
Interest income	$ 188,006	$ 367,360
Subsidy income	168,377	184,512
Dividend income	59,099	1,883,826
Others	177,969	514,067
	$ 593,451	$ 2,949,765

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	$ 54,188	$ 13,137
Net gain (loss) arising on financial assets classified as held for trading	(29,909)	150,714
Gain or loss on foreign exchange, net	(495,350)	248,626
Impairment loss on noncurrent assets held for sale	(347,868)	(1,899,372)
Impairment loss on flight equipment	(717,758)	(569,000)
Others	(874,224)	(844,204)
	$ (2,410,921)	$ (2,900,099)

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 a 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 compensation 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	$ 297,032	$ 292,242
Bank loans	845,987	1,280,181
Interest on obligations under finance leases	68,179	132,409
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
	$ 1,221,588	$ 1,711,983

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2016	**2015**
Capitalized interest	$ 419,593	$ 344,835
Capitalization rate	1.45%-1.73%	1.74%-1.80%

e. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 16,588,758	$ 16,266,952
Intangible assets	138,554	60,044
	$ 16,727,312	$ 16,326,996
An analysis of deprecation by function		
Operating costs	$ 16,290,250	$ 15,991,635
Operating expenses	298,508	275,317
	$ 16,588,758	$ 16,266,952
An analysis of amortization by function		
Operating expenses	$ 138,554	$ 60,044

f. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Post-employment benefits		
Defined contribution plans	$ 312,512	$ 272,662
Defined benefit plans	736,666	450,878
	$ 1,049,178	$ 723,540
Other employee benefits		
Salary expenses	$ 14,176,230	$ 14,186,351
Labor and health insurance	1,175,417	1,052,067
Personnel service expenses	3,318,811	3,154,803
	$ 18,670,458	$ 18,393,221
An analysis of employee benefits expense by function		
Operating costs	$ 15,901,817	$ 15,375,171
Operating expenses	3,817,818	3,741,590
	$ 19,719,635	$ 19,116,761

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 net profit before income tax and employees' compensation. For the years ended December 31, 2016 and 2015, employees' compensation was $382,318 thousand and $1,810,196 thousand, respectively, of the base net profit.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual financial statements are authorized for issue are adjusted in the year that the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual financial statements were 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 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
Current year	$ 19,624	$ 57,378
Prior year adjustment	(116)	1,983
Deferred tax		
Current year	946,203	1,014,747
Income tax expense recognized in profit or loss	$ 965,711	$ 1,074,108

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

	For the Year Ended December 31	
	2016	2015
Profit before tax	$ 1,537,251	$ 6,837,822
Income tax expense calculated at the statutory rate (17%)	$ 261,333	$ 1,162,430
Add (deduct) tax effects of:		
Nondeductible expenses in determining taxable income	142,079	11,716
Temporary differences	(393,931)	478,850
Tax-exempt income	(9,481)	(87,683)
Loss carryforwards - current used	-	(1,565,313)
Overseas income tax expense	19,624	57,378
Deferred tax		
Temporary differences	470,203	1,048,747
Unrecognized loss carryforwards and investment tax credits	476,000	(34,000)
Adjustments for prior years' tax	(116)	1,983
Income tax expense recognized in profit or loss	$ 965,711	$ 1,074,108

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 13,618	$ (9,306)
Fair value changes of hedging instruments for cash flow hedges	(51,019)	(366,060)
Actuarial gain or loss on defined benefit plan	100,195	92,088
Total income tax recognized in other comprehensive income	$ 62,794	$ (283,278)

c. Deferred tax assets and liabilities

For the year ended December 31, 2016

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plan	$ 1,525,482	$ (564,470)	$ 100,195	$ 1,061,207
Frequent flyer program	452,949	(31,254)	-	421,695
Maintenance reserve	855,653	295,408	-	1,151,061
Allowance for reduction of inventory	172,901	26,191	-	199,092
Others	849,476	(210,207)	(45,561)	593,708
Loss carryforwards	2,834,341	(511,390)	-	2,322,951
	$ 6,690,802	$ (995,722)	$ 54,634	$ 5,749,714
Deferred tax liabilities				
Temporary differences				
Depreciation difference from fixed assets	$ 125,008	$ (39,059)	$	$ 85,949
Others	47,443	(10,460)	(8,160)	28,823
	$ 172,451	$ (49,519)	$ (8,160)	$ 114,772

For the year ended December 31, 2015

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plan	$ 1,475,338	$ (41,944)	$ 92,088	$ 1,525,482
Frequent flyer program	432,196	20,753	-	452,949
Maintenance reserve	580,822	274,831	-	855,653
Allowance for reduction of inventory	148,436	24,465	-	172,901
Others	1,038,650	176,908	(366,082)	849,476
Loss carryforwards	4,380,524	(1,546,183)	-	2,834,341
	$ 8,055,966	$ (1,091,170)	$ (273,994)	$ 6,690,802

(Continued)

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Ending Balance
Deferred tax liabilities				
Temporary differences				
Unrealized foreign exchange gain	$ 78,125	$ (78,125)	$ -	$ -
Depreciation difference from fixed assets	126,488	(1,480)	-	125,008
Others	34,977	3,182	9,284	47,443
	$ 239,590	$ (76,423)	$ 9,284	$ 172,451

(Concluded)

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

	December 31 2016	December 31 2015
Loss carryforwards		
Expiry in 2019	$ 7,300,000	$ 4,500,000

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

Expiry Year	Unused Amount
2019	$ 17,328,027
2021	2,899,496
2022	619,799
2026	117,099
	$ 20,964,421

e. Integrated income tax

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

The actual creditable tax ratio in 2015 was 20.22%, and the Company accumulated deficit as of December 31, 2016; thus, there were no expected creditable tax ratios.

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

f. The income tax returns of the Company through 2014 have been examined by the tax authorities.

28. EARNINGS 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
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
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	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 Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company 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.

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company 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 Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Company 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.

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Fair value of financial instruments not carried at fair value

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 22,538,044	$ 22,580,069	$ 15,844,106	$ 16,459,680
Bank loans	84,649,618	86,734,531	83,532,457	83,693,104

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. 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% in 2016 and 0.433% in 2015 prevailing in the market for long-term debts (Level 2). The fair values of bonds payable are based on those which are traded in the stock exchange 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
Derivative financial assets for hedging	$ -	$ 54,671	$ -	$ 54,671
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	100,029	-	-	100,029
	$ 100,029	$ 65,528	$ -	$ 165,557
Derivative financial assets for hedging	$ -	$ 44,222	$ 12,738	$ 56,960
Derivative financial liabilities for hedging	$ -	$ 12,702	$ 300,501	$ 313,203

There were no transfers between Level 2 and 3 in the current and prior 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 exchange 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 historical volatility. An increase in the historical volatility 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 are not required to have their fair values disclosed, the total fair value shown in this note does not represent the total value of the Company.

b. Categories of financial instruments

	December 31	
	2016	2015
Financial assets		
Financial assets at FVTPL	$ 1,200	$ 165,557
Available-for-sale financial assets (3)	120,200	126,125
Derivative financial assets for hedging	54,671	56,960
Loans and receivables (1)	29,522,622	27,834,830
	$ 29,698,693	$ 28,183,472

(Continued)

	December 31	
	2016	2015
Financial liabilities		
Derivative financial liabilities for hedging	$ 23,629	$ 313,203
Financial liabilities at amortized cost (2)	122,866,720	119,588,050
	$ 122,890,349	$ 119,901,253

(Concluded)

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.

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.

3) The balances include financial assets measured at cost.

c. Financial risk management objectives and policies

The Company has risk management and hedging strategies to respond to changes in the economic, financial environment and in the fuel market. To reduce the financial risks from changes in interest, exchange rates and fuel prices, the Company 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 Company stockholders to reduce the impact of changes in market price 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 Company has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging portion. This committee informs the Company 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 Company is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Company entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

The Company 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 Company 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 Company is mainly exposed to the U.S. dollar.

The following details the Company's sensitivity to a one dollar increase and 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. dollar increase/decrease against the New Taiwan dollar.

When the New Taiwan dollar increases one dollar against the U.S. dollar and all other variables were held constant, there would be an increase in pre-tax profit in 2016 of $9,026 thousand and a decrease in pre-tax profit in 2015 of $127,516 thousand.

b) Interest rate risk

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

The risk is managed by the Company 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 Company's 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	$ 26,258,421	$ 16,540,596
Cash flow interest rate risk	86,645,240	89,343,567

Sensitivity analysis

The sensitivity analyses below were determined based on the Company'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. One yard (25 basis) 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 increased one yard (25 basis) and had all other variables been held constant, the Company's pretax profit for the year ended December 31, 2016 would have decreased by $216,613 thousand.

Had interest rates increase one yard (25 basis) and had all other variables been held constant, the Company's pretax profit for the year ended December 31, 2015 would have decreased by $160,250 thousand.

c) Other price risk

The Company is exposed to fuel price risk on its purchase of aviation fuel. The Company enters into fuel option 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 Compre-hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)
Fuel price increase 5%	$ -	$ -	$ 9,799	$ (32,769)
Fuel price decrease 5%	-	-	(9,799)	(106,002)

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company'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 Company has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Company consider into the financial condition of the customers, the credit rating agency rating, the Company's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Company 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 Company's finance department. The Company'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.

Endorsements given by the Company on behalf of its subsidiaries can be found in Note 31,c.

3) Liquidity risk

The objective of the Company'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 Company has adequate financial flexibility.

Liquidity and interest risk rate tables

The following table shows the remaining contractual maturity analysis of the Company's financial liabilities with agreed-upon repayment periods, which were based on the date the Company 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 Company'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	1.0508	$ 313,500	$ 940,500	$ 2,966,000	$ 596,000	$ -
Floating interest rate liabilities	1.2477	4,266,076	26,698,266	14,579,283	31,315,615	4,970,000
Fixed interest rate liabilities	0.016	401,268	419,109	2,000,000	-	-
Derivative instruments	-	2,655	18,200	2,775	-	-
Bonds payable	1.3384	-	2,700,000	4,338,044	15,500,000	-
		$ 4,983,499	$ 30,776,075	$ 23,886,102	$ 47,411,615	$ 4,970,000

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	$ 357,118	$ 1,071,350	$ 1,517,133	$ 3,562,000	$ -
Floating interest rate liabilities	1.2233	6,893,834	22,306,473	33,457,662	19,898,375	260,688
Fixed interest rate liabilities	0.0437	113,811	341,433	241,246	-	-
Derivative instruments	-	110,660	197,880	4,664	-	-
Bonds payable	1.3798	-	4,944,106	-	10,900,000	-
		$ 7,475,423	$ 28,861,242	$ 35,220,705	$ 34,360,375	$ 260,688

Loan commitments

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

31. RELATED-PARTY TRANSACTIONS

Details of transactions between the Company and its related parties are disclosed below:

a. Operating transactions

	Sales of Goods For the Year Ended December 31		Purchases of Goods For the Year Ended December 31	
	2016	2015	2016	2015
Associates	$ 3,053,926	$ 3,449,074	$ 3,539,079	$ 3,568,025
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	$ 436,447	$ 542,449
Jointly controlled entities	1,550	599
Major stockholders	1,512	3,093
	$ 439,509	$ 546,141

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

	December 31	
	2016	2015
Associates	$ 912,002	$ 952,166
Jointly controlled entities	431,502	388,371
Major stockholders	3,503	7,138
	$ 1,347,007	$ 1,347,675

The outstanding accounts payable from related parties are unsecured and will be paid in cash, and 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)

The Company rented out planes to Mandarin Airlines under an operating lease contract. The monthly rent received is based on flight hours. In 2016 and 2015, the rentals received amounted to $1,022,817 thousand and $1,388,499 thousand, respectively.

For fleet scheduling, the Company rented planes from Mandarin Airlines under an operating lease agreements beginning from July 2003. The Company paid the rental by flight hours. The payments of flight rentals were $17,519 thousand in 2016 and $205,604 thousand in 2015.

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 based on usage hours. In 2016 and 2015, the Company paid rentals of about $63,084 thousand and $78,374 thousand, respectively.

In March 2010, the Company signed with CAL Park a yearly renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport at a fixed rental of $18,101 thousand monthly. In both 2016 and 2015, the Company paid rentals of $217,210 thousand.

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. Bonds payable - related parties

Related parties that invested in the first issue of unsecured bonds in 2016 (Note 19) are summarized as follows:

	December 31, 2016	
Related Party	**Units**	**Aggregate Par/Dollars**
The first issue of unsecured bonds in 2016		
Mandarin Airlines	250	$ 250,000
Sabre Travel Network (Taiwan)	50	50,000

In 2016, interest expenses was $2,142 thousand. This bonds payable will be paid off in May 2021. As of December 31, 2016 the interest payable was $2,142 thousand.

e. 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.

32. 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	$ 76,096,729	$ 88,609,505
Restricted assets - noncurrent		
US treasury bills	-	236,634
	$ 76,096,729	$ 88,846,139

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

33. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2016, the Company had commitments and contingent liabilities which were 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 A350-900aircrafts, with aggregate listing 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 delivered to the Company, and the aggregated listing purchase price of the remaining ten aircrafts was $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 lease contracts 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 had been delivered.

c. The Company 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.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company 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	$ 240,758	32.2581	$ 7,764,768
EUR	15,642	34.0136	532,068
HKD	273,058	4.1580	1,135,374
JPY	4,799,620	0.2770	1,329,495
RMB	428,196	4.6425	1,987,898
Financial liabilities			
Monetary items			
USD	250,734	32.2581	8,088,204
EUR	6,511	34.0136	221,448
HKD	84,450	4.1580	351,141
JPY	4,408,042	0.2770	1,221,028
RMB	106,305	4.6425	493,520

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 283,326	32.8947	$ 9,319,930
EUR	15,820	35.9712	569,057
HKD	229,643	4.2445	974,720
JPY	1,472,009	0.2731	402,006
RMB	1,713,347	5.0659	8,679,643
Financial liabilities			
Monetary items			
USD	113,609	32.8947	3,737,148
EUR	8,332	35.9712	299,726
HKD	76,421	4.2445	324,371
JPY	4,515,925	0.2731	1,233,299
RMB	121,287	5.0659	614,428

For the years ended December 31, 2016 and 2015, the Company's net foreign exchange gains (losses) were $(495,350) thousand and $248,626 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.

35. 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 8.

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

36. SEGMENT INFORMATION

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the fleet, which is jointly used for passenger and cargo services. Thus, the Company’s sole reportable segment is the flight segment. For operating segment reporting in the financial statements, the Company’s reportable segment comprises the flight and the non-flight business departments.

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.

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 shares 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.

TABLE 6

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 of the investee company, and the Company was preparing for a 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) are translated at the average of the year-end rates for the reporting period.

(Concluded)