China Airlines, Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

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March 22, 2018

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of China Airlines, Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Deferred Income Tax Assets

Due to suffering tax losses in previous years, the Group was granted loss carryforwards which can be used against taxable income in a certain period. The Group recognized the loss carryforwards as deferred tax assets to the extent that the taxable profit in the future will be available against the loss carryforwards. As of December 31, 2017, the Group recognized tax losses as deferred tax assets, in the amount of NT$821,417 thousand. Refer to Notes 4, 5 and 28 in the accompanying consolidated financial statement for the related detailed information.

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

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

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

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

Impairment Loss of Noncurrent Assets Held for Sale

The board of directors of the Group resolved to dispose of several aircrafts. According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", impairment losses from the disposal of aircrafts were recognized as the differences between the expected transaction value and the carrying amount of the aircrafts, and then the aircrafts were reclassified as noncurrent assets held for sale. As of December 31, 2017, the carrying amount of the aircrafts held for sale was NT$309,330 thousand, and recognized impairment loss in NT$3,571,301 thousand. Refer to Notes 4, 5 and 12 in the accompanying consolidated financial statements for the related detailed information.

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

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

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

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

Acquisition Costs of a New Fleet

In accordance with IAS 16 “Property, Plant and Equipment”, acquisition costs of aircrafts should be allocated into several significant components, including airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and should be depreciated over different useful lives. As of December 31, 2017, the carrying amount of flight equipment was NT$126,832,379 thousand. Refer to Notes 4, 5, and 15 in the accompanying consolidated financial statements for the related detailed information.

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

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

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

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

Other Matter

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 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 22, 2018

Notice to Readers

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 18 and 31)	$ 22,585,332	10	$ 24,267,197	11
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	306,839	-	416,641	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 31)	293	-	58,449	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 31)	8,604,265	4	8,353,785	4
Notes and accounts - related parties (Notes 31 and 32)	8,359	-	3,562	-
Other receivables (Notes 4 and 31)	714,413	-	952,320	-
Current tax assets (Notes 4 and 28)	32,487	-	28,259	-
Inventories, net (Notes 4 and 11)	8,731,755	4	8,434,386	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	426,553	-	185,100	-
Other assets - current (Notes 6 and 18)	6,001,538	3	4,638,502	2
Total current assets	47,411,834	21	47,338,201	21
NONCURRENT ASSETS				
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 31)	-	-	3,268	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 9 and 31)	84,075	-	140,357	-
Investments accounted for using the equity method (Notes 4 and 14)	2,507,346	1	2,866,431	1
Property, plant and equipment (Notes 4, 5, 15 and 33)	153,617,531	68	140,136,737	62
Investment properties (Notes 4 and 16)	2,075,624	1	2,075,903	1
Other intangible assets (Notes 4 and 17)	1,019,345	1	1,137,115	1
Deferred income tax asset (Notes 4, 5 and 28)	5,519,332	2	6,256,665	3
Other assets - noncurrent (Notes 18, 21, 31, 33 and 34)	13,664,545	6	24,546,082	11
Total noncurrent assets	178,487,798	79	177,162,558	79
TOTAL	$ 225,899,632	100	$ 224,500,759	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 19)	$ 120,000	-	$ 135,000	-
Short-term bills payable (Note 19)	-	-	900,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	8,655	-	-	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 31)	82,295	-	20,854	-
Notes and accounts payable (Note 31)	483,884	-	869,712	-
Notes and accounts payable - related parties (Notes 31 and 32)	590,806	-	555,829	-
Other payables (Notes 22 and 31)	13,033,069	6	11,465,254	5
Current tax liabilities (Notes 4 and 28)	28,722	-	48,687	-
Provisions - current (Notes 4, 5 and 24)	475,725	-	81,925	-
Deferred revenue - current (Notes 4, 5 and 23)	16,375,789	7	14,820,860	7
Bonds payable and put option of convertible bonds - current portion (Notes 4, 20, 26 and 31)	4,367,100	2	2,700,000	1
Loans and debts - current portion (Notes 19, 31 and 33)	19,304,674	9	32,268,540	14
Capital lease obligations - current portion (Notes 4, 21, 31 and 33)	1,617,321	1	1,284,001	1
Other current liabilities (Notes 27 and 31)	3,801,073	2	3,455,062	2
Total current liabilities	60,289,113	27	68,605,724	30
NONCURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 31)	926	-	-	-
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 31)	6,994	-	2,775	-
Bonds payable - noncurrent (Notes 4, 20, 26 and 31)	21,050,000	9	19,538,044	9
Loans and debts - noncurrent (Notes 19, 31 and 33)	65,753,503	29	56,962,187	25
Provisions - noncurrent (Notes 4, 5 and 24)	8,013,583	4	7,408,229	3
Deferred tax liabilities (Notes 4 and 28)	190,682	-	273,610	-
Capital lease obligations - noncurrent (Notes 4, 21, 31 and 33)	636,222	-	3,645,304	2
Deferred revenue - noncurrent (Notes 4, 5 and 23)	1,818,265	1	1,808,903	1
Accrued pension costs (Notes 4, 5 and 25)	8,101,565	4	7,956,835	4
Other noncurrent liabilities (Notes 27 and 31)	881,260	-	431,950	-
Total noncurrent liabilities	106,453,000	47	98,027,837	44
Total liabilities	166,742,113	74	166,633,561	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)				
Share capital	54,709,846	24	54,708,901	25
Capital surplus	799,999	-	799,932	-
Retained earnings				
Legal reserve	206,092	-	287,224	-
Special reserve	-	-	76,486	-
Unappropriated retained earnings (accumulated deficit)	1,458,313	1	(157,618)	-
Total retained earnings	1,664,405	1	206,092	-
Other equity	(107,641)	-	112,264	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	57,023,237	25	55,783,817	25
NON-CONTROLLING INTERESTS (Note 26)	2,134,282	1	2,083,381	1
Total equity	59,157,519	26	57,867,198	26
TOTAL	$ 225,899,632	100	$ 224,500,759	100

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earning Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
REVENUE (Notes 4, 27 and 32)	$ 156,121,785	100	$ 141,079,107	100
COSTS (Notes 4, 8, 11, 18, 25, 27 and 32)	134,149,374	86	123,073,201	87
GROSS PROFIT	21,972,411	14	18,005,906	13
OPERATING EXPENSES (Notes 4, 25, 27 and 32)	13,146,251	8	13,441,219	10
OPERATING PROFIT	8,826,160	6	4,564,687	3
NONOPERATING INCOME AND LOSS				
Other income (Notes 4 and 27)	560,399	-	759,139	1
Other gains and losses (Notes 8, 9, 12, 13, 14, 15 and 27)	(5,052,031)	(3)	(2,688,096)	(2)
Finance cost (Notes 8 and 27)	(1,346,801)	(1)	(1,292,865)	(1)
Share of the profit of associates and joint ventures (Note 14)	536,236	-	536,986	-
Total nonoperating income and loss	(5,302,197)	(4)	(2,684,836)	(2)
PRETAX PROFIT	3,523,963	2	1,879,851	1
INCOME TAX EXPENSE (Notes 4, 5 and 28)	1,033,171	-	1,168,911	1
NET INCOME	2,490,792	2	710,940	-
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 25)	(1,021,715)	(1)	(940,795)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4, 14 and 26)	(42,277)	-	(66,815)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	173,691	-	159,935	-
	(890,301)	(1)	(847,675)	-

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earning Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 26)	$ (140,074)	-	$ (112,092)	-
Cash flow hedges (Notes 4 and 26)	(128,280)	-	312,094	-
Share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4, 14 and 26)	60	-	(41)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	45,419	-	(33,955)	-
	(222,875)	-	166,006	-
Other comprehensive loss for the year, net of income tax	(1,113,176)	(1)	(681,669)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,377,616	1	$ 29,271	-
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 2,208,066	2	$ 571,540	-
Non-controlling interests	282,726	-	139,400	-
	$ 2,490,792	2	$ 710,940	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 1,240,677	1	$ 26,103	-
Non-controlling interests	136,939	-	3,168	-
	$ 1,377,616	1	$ 29,271	-
EARNING PER SHARE (NEW TAIWAN DOLLARS; Note 29)				
Basic	$ 0.40		$ 0.10	
Diluted	$ 0.39		$ 0.10	

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
			Retained Earnings			Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016	$ 54,708,901	$ 798,415	$ -	$ -	$ 2,872,235	$ 157,959	$ 1,755	$ (225,997)	$ (43,372)	$ 58,269,896	$ 2,286,647	$ 60,556,543
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)	(4,548)	(8,084)
Appropriation of 2015 the earning												
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-	-	-
Cash dividends - $0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540	139,400	710,940
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)	(136,232)	(681,669)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103	3,168	29,271
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(201,886)	(201,886)
BALANCE AT DECEMBER 31, 2016	54,708,901	799,932	287,224	76,486	(157,618)	78,564	1,714	31,986	(43,372)	55,783,817	2,083,381	57,867,198
Compensation of deficit - capital surplus	-	-	(81,132)	(76,486)	157,618	-	-	-	-	-	-	-
Disposal of capital surplus of investments in associates accounted for using the equity method	-	(64)	-	-	-	-	-	-	-	(64)	-	(64)
Convertible bonds converted to common shares	945	131	-	-	-	-	-	-	-	1,076	-	1,076
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(2,269)	-	-	-	-	(2,269)	(46,118)	(48,387)
Net income for the year ended December 31, 2017	-	-	-	-	2,208,066	-	-	-	-	2,208,066	282,726	2,490,792
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(747,484)	(113,550)	60	(106,415)	-	(967,389)	(145,787)	(1,113,176)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,460,582	(113,550)	60	(106,415)	-	1,240,677	136,939	1,377,616
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(39,920)	(39,920)
BALANCE AT DECEMBER 31, 2017	$ 54,709,846	$ 799,999	$ 206,092	$ -	$ 1,458,313	$ (34,986)	$ 1,774	$ (74,429)	$ (43,372)	$ 57,023,237	$ 2,134,282	$ 59,157,519

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,523,963	$ 1,879,851
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	18,340,022	17,545,523
Amortization expenses	259,129	147,486
Bad-debt expense	45,016	83,657
Net loss on fair value change of financial assets and liabilities held for trading	32,039	35,678
Interest income	(210,264)	(242,801)
Dividend income	(9,564)	(59,099)
Share of profit of associates and joint ventures	(536,236)	(536,986)
Gain on disposal of property, plant and equipment	(6,153)	(79,848)
Loss on disposal of financial assets carried at cost	-	346
Gain on disposal of investments accounted for using the equity method	(101,105)	-
(Gain) loss on disposal of noncurrent assets held for sale	(252,467)	26,429
Impairment loss recognized on noncurrent assets held for sale	3,571,301	347,868
Impairment loss recognized on available-for-sale financial assets	-	19,005
Impairment loss recognized on property, plant, equipment	690,579	717,758
Loss on inventories and property, plant and equipment	644,005	207,019
Impairment loss recognized on financial assets carried at cost	56,023	71,826
Net gain on foreign currency exchange	(327,854)	(3,855)
Finance costs	1,346,801	1,292,865
Recognition of provisions	3,201,642	2,613,011
Amortization of unrealized gain on sale-leasebacks	(14,512)	(14,512)
Loss on repurchase of bonds payable	-	41,943
Changes in operating assets and liabilities		
Financial assets held for trading	77,133	91,729
Financial liabilities held for trading	9,580	-
Derivate financial assets for hedging	-	13,096
Notes and accounts receivable	(298,519)	(883,623)
Notes and accounts receivable - related parties	(101,830)	152,611
Other receivables	215,027	(15,595)
Inventories	(616,396)	(358,861)
Other current assets	(1,474,384)	(293,137)
Notes and accounts payable	(464,147)	(281,324)
Notes and accounts payable - related parties	309,729	(233,483)
Other payables	2,239,296	(1,166,447)
Deferred revenue	1,564,292	1,651,689
Provisions	(1,755,029)	(1,393,565)
Other current liabilities	314,740	399,500

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Accrued pension liabilities	$ (876,289)	$ (3,532,023)
Other liabilities	(23,007)	22,045
Cash generated from operations	29,372,561	18,265,776
Interest received	228,247	239,461
Dividends received	443,509	513,203
Interest paid	(1,319,910)	(1,195,427)
Income tax paid	(177,389)	(186,641)
Net cash generated from operating activities	28,547,018	17,636,372
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	-	63
Proceeds of the sale of financial assets carried at cost	-	5,579
Acquisition of associates	(2,450)	-
Proceeds from disposal of noncurrent assets held for sale	1,128,472	384,285
Proceeds from disposal of investments accounted for using the equity method	380,850	-
Payments for property, plant and equipment	(2,535,293)	(2,755,043)
Proceeds from disposal of property, plant and equipment	95,929	519,489
Increase in refundable deposits	(289,911)	(250,177)
Decrease in refundable deposits	245,505	333,973
Increase in prepayments for equipment	(24,756,184)	(24,906,679)
Refunds of prepayments for aircrafts	-	5,693,791
Increase in long-term lease receivable	(716)	-
Increase in computer software costs	(141,448)	(277,235)
Decrease in restricted assets	82,906	230,338
Net cash used in investing activities	(25,792,340)	(21,021,616)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(18,021)	(35,000)
(Decrease) increase in short-term bills payable	(900,000)	890,005
Proceeds from issue of bonds payable	5,850,000	9,700,000
Exercise of put options of bonds payable	-	(994,705)
Repayments of bonds payable	(2,700,000)	(2,400,000)
Proceeds from long-term debts	30,657,300	35,241,000
Repayments of long-term debts and capital lease obligations	(37,506,405)	(35,501,395)
Proceeds of guarantee deposits received	250,062	121,440
Refunds of guarantee deposits received	(214,060)	(94,448)
Dividends paid to owners of the Company	-	(2,508,525)
Cash dividends paid to non-controlling interests	(39,920)	(201,886)
Acquisition of subsidiaries' shares	(48,387)	(8,084)
Net cash (used in) generated from financing activities	(4,669,431)	4,208,402

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	$ 232,888	$ (47,046)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,681,865)	776,112
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	24,267,197	23,491,085
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 22,585,332	$ 24,267,197

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

1. GENERAL INFORMATION

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

The major shareholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2017 and 2016, CADF and NDF held 43.63% of the Company's shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement of the Company and its subsidiaries (collectively the "Group") were approved by the board of directors and authorized for issue on March 22, 2018.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers (FSC) and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the FSC

   Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

   <u>Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers</u>

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

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 32 for related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS)

New, Amended or Revised Standards and Interpretations (the "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
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
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.

1) IFRS 9 "Financial Instruments"

Classification, measurement and impairment of financial assets

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

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

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

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 using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares carried at cost will be measured at fair value instead;

b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; and

c) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding

IFRS 9 requires impairment loss on financial assets to be recognized using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments 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 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

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

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

Impact on Assets and Equity	**Carrying Amount as of December 31, 2017**	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
December 31,2017			
Noncurrent assets			
Financial assets at fair value through other comprehensive income	$ -	$ 131,585	$ 131,585
Financial assets carried at cost	84,075	(84,075)	-
Total effect on assets	225,899,632	47,510	225,947,142
Equity			
Unappropriated retained earnings	1,458,313	60	1,458,373
Other equity	(107,641)	47,450	(60,191)
Total effect on equity	59,157,519	47,510	59,205,029

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 15 "Revenue from Contracts with Customers" and related amendments

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.

When applying IFRS 15, the Group recognizes 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 Group satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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 FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

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

b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an 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 an asset or liability.

Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within 12 months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 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.

Assets and liabilities that are not classified as current are classified as noncurrent.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Foreign Currencies

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

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

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

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

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

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

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

Cash Equivalents

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

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sales 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

Noncurrent 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 noncurrent 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.

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

Freehold land is not depreciated.

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

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

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

Investment Properties

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

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

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

Any gain or loss arising on the derecognition of investment properties 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 lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

Financial assets may be classified into the following specified categories: Financial assets at fair value through profit or loss, held-to maturity investments, available-for-sale financial assets and loans and receivables. The classification of financial assets depends on their nature and the purpose identified at their original recognition. The Group's financial assets consist of the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

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 dividends or interest earned on the financial assets. Fair value is determined in the manner described in Note 31.

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 the carrying amount and the 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 equivalents, debt investments with no active market, and other receivables are measured using the effective interest method at amortized cost 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 assets, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with 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 defaults on receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between such an 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 following:

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

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

c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when the obligation is discharged, canceled or expired. The difference between the carrying amount of such a 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 (i.e. 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 premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

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

e. Derivative financial instruments

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument 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, foreign exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedges. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items which have been hedged, the objective of risk management, the 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 as when the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

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

Provisions

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

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

<u>Aircraft lease contracts</u>

When an aircraft lease contracts expires and the leased item will be returned to the lessor, the Group should assess if existing obligations exist and if it is required to recognize a provision when signing 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 tickets - sales”.

b. Dividend and interest income

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

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

Leasing

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

a. Financial leases

   <u>The Group as lessee</u>

   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 reductions 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 rentals 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 whereby all the risks and rewards of ownership of the leased asset are essentially transferred to the lessee, the sale and leaseback transaction is classified as a finance lease. If part of the significant risks and rewards of ownership of the leased asset remain with the lessor (i.e. the buyer), the sale and leaseback transaction is classified as an operating lease.

1) Financial leases

This transaction does not actually dispose of the assets. The accounting treatment used treats the transaction as if it did not occur, and the assets are continuously recognized at the book value of the asset before sale.

2) Operating leases

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

c. Operating leases

1) The Group as lessor

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

2) The Group as lessee

Operating lease payments are recognized as expenses 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 rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

In the event that lease incentives are received when entering 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 services.

b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as expenses 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 and past service cost) and net interest on the net defined benefit liabilities (assets) 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 liabilities (assets) represent the actual deficit in the Group's defined benefit plans.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which 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 that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Programs

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member rewards and operates a "Tigerclub Member Privilege Program" to provide members with accumulated ticket reward bonuses, which could be used to offset the payments for airfare, luggage fees, priority check-ins, and ordering of meals in flight cabins. A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company should recognize this deferred revenue as revenue only when it has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

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

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

Taxation

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

a. Current tax

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

The Group's current tax liabilities are calculated by the tax rate was legislated or substantially legislated 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 shareholders approve the retention of these earnings.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards 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 profit will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit 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 profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized 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 liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes 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 taxes 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 an 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 the straight-line depreciation method.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

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

Income Taxes

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

Estimated Impairment of Trade Receivables

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

Fair Value of Derivatives and Other Financial Instruments

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

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment is depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Group on the basis of past experience and fleet operation performance in the industry. Due to changes in the fleet plan, the board of directors of the Company has decided to change the expected useful lives of four 747-400 (GE) from 20 to 16-17 years since January 1, 2018 in order to meet the economic benefits and number of years of consumption. It is estimated that the depreciation expense will increase by approximately NT$770 million annually.

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 Aircrafts

Maintenance reserve is based on the requirement under lease contracts to reflect maintenance costs that may arise on lease expirations. Estimation of this reserve is based on the past maintenance experience with 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 Programs

As stated in Note 4, "Frequent Flyer Programs", 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 the 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 the recognition of additional or reversal of impairment losses.

Impairment of Noncurrent Assets Held for Sale

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand and revolving funds	$ 374,445	$ 359,106
Checking accounts and demand deposits	11,427,766	9,266,679
Cash equivalents		
Time deposits with original maturities of less than three months	4,812,734	3,698,109
Repurchase agreements collateralized by bonds	5,970,387	10,943,303
	$ 22,585,332	$ 24,267,197

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

	December 31	
	2017	2016
Bank balance	0%-2%	0.05%-2%
Time deposits with original maturities of less than three months	0.59%-4.2%	0.13%-12.9%
Repurchase agreements collateralized by bonds	0.36%-2.2%	0.33%-1.40%

The amount of time deposits with original maturities more than three months for the years ended December 31, 2017 and 2016 were $1,323,095 thousand and $1,267,927 thousand, respectively, and the market rate intervals were 0.16%-1.42% and 0.16%-2.45%, which were recognized as other current assets. (Refer to Note 18.)

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

	December 31	
	2017	2016
Financial assets held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ -	$ 1,200
Non-derivative financial assets		
Beneficial certificates	306,839	415,441
	$ 306,839	$ 416,641
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
Current	$ 8,655	$ -
Noncurrent	926	-
	$ 9,581	$ -

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, 2017			
Buy forward contracts	NTD/USD	2018.01.31-2019.01.31	NTD194,030/USD6,500
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.26	NTD32,258/USD1,000

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2017	2016
Derivative financial assets under hedge accounting		
Foreign exchange forward contracts	$ 293	$ 61,634
Fuel options	-	83
	$ 293	$ 61,717
Current	$ 293	$ 58,449
Noncurrent	-	3,268
	$ 293	$ 61,717
Derivative financial liabilities under hedge accounting		
Interest rate swaps	$ -	$ 3,855
Foreign exchange forwards contracts	89,289	19,774
	$ 89,289	$ 23,629
Current	$ 82,295	$ 20,854
Noncurrent	6,994	2,775
	$ 89,289	$ 23,629

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

Cash Flow Hedges

a. Interest rate swaps

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

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

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. Fuel options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy fuel call options	USD	2017.01.05-2017.02.08	NTD83

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

c. Foreign exchange forward contracts

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.05-2019.06.21	NTD7,105,942/USD236,924
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.03-2018.10.25	NTD5,381,178/USD167,078

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

	For the Year Ended December 31	
	2017	**2016**
Increase in operating costs	$ (52,034)	$ (352,960)
Increase in finance costs	(2,814)	(10,390)
Other foreign exchange losses	(21,773)	(71,460)
	$ (76,621)	$ (434,810)

The amount of gains and losses on hedging instruments reclassified from profit or loss to prepayments for equipment were $100,367 thousand and $154,970 thousand in 2017 and 2016, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2017		**2016**	
	Carrying Amount	**% of Owner-ship**	**Carrying Amount**	**% of Owner-ship**
Unlisted common shares				
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 52,704	14
Jardine Aviation Service	-	15	56,023	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	3	-	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	19,898	5	20,157	5
Chung Hwa Express Co.	11,000	11	11,000	11
	83,602		139,884	
Unlisted preference shares				
Everest Investment Holdings Ltd. (AH)	473		473	-
	$ 84,075		$ 140,357	
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 84,075		$ 140,357	

The Group recognized an impairment loss of $71,826 thousand in July 2016, because the value of Taikoo (Xiamen) Landing Gear Service Co., Ltd. permanently declined. Due to the permanent decrease in the value of Jardine Aviation Service held by the Group, the Group recognized an impairment loss of $56,023 thousand in June 2017, which was classified as other gains and losses.

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

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2017	2016
Notes receivable	$ 362,855	$ 525,797
Accounts receivable		
Accounts receivable	8,423,278	8,019,386
Less: Allowance for impairment loss	(181,868)	(191,398)
	8,241,410	7,827,988
	$ 8,604,265	$ 8,353,785

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

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

	For the Year Ended December 31	
	2017	2016
Beginning balance	$ 191,398	$ 109,927
Impairment loss recognized on receivables	45,016	83,657
Amounts written off during current period	(54,570)	(2,462)
Effects of exchange rate changes	24	276
Ending balance	$ 181,868	$ 191,398

11. INVENTORIES

	December 31	
	2017	2016
Aircraft spare parts	$ 8,082,993	$ 7,713,264
Items for in-flight sale	576,429	553,327
Work in process - maintenance services	71,046	166,684
Others	1,287	1,111
	$ 8,731,755	$ 8,434,386

The operating costs recognized for the years ended December 31, 2017 and 2016 included losses from inventory write-downs of $324,447 thousand and $196,000 thousand, respectively.

12. NONCURRENT ASSETS HELD FOR SALE

	December 31	
	2017	2016
Aircrafts held for sale	$ 309,330	$ 185,100
Long-term equity investments held for sale - Asian Compressor Technology Services	117,223	-
	$ 426,553	$ 185,100

To enhance its competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts according to a planned schedule. Such aircrafts, classified as noncurrent assets held for sale, had an original book value which was higher than the expected sale price and which was recognized as an impairment loss. However, the actual loss shall be identified by the actual sale price.

In 2017 and 2016, the Company recognized impairment losses of $3,571,301 thousand and $347,868 thousand, respectively. In 2017 and 2016, the Company recognized disposal gains and losses of $252,467 thousand and $(26,429) thousand, respectively. The fair value was determined by transactions of the related market, and the proposed sale price was based on the current status of the aircrafts. The fair value is classified as level 3.

Long-term equity investments in Asian Compressor Technology Services were reclassified to noncurrent assets held for sale. For related information, refer to Note 14,a.

13. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

			Proportion of Ownership (%)	
			December 31	
Investor Company	Investee Company	Main Businesses and Products	2017	2016
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100
	Cal-Asia Investment	General investment	100	100
	Hwa Hsia	Cleaning of aircraft and maintenance of machine and equipment	100	100
	Yestrip	Travel business	100	100
	Cal Park	Real estate lease and international trade	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59
	Dynasty Holidays	Travel business	51	51
	Taoyuan International Airport Services	Airport services	49	49
	Taiwan Airport Services (Note)	Airport services	48	48
	Global Sky Express	Forwarding and storage of air cargo	25	25
	Freighter Princess Ltd.	Aircraft lease	-	100
	Freighter Prince Ltd.	Aircraft lease	-	100
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	100	90
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100

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

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

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

The Company increased its investments with a payment of $490,000 thousand, $700,000 thousand and $100,000 thousand to Taiwan Aircraft Maintenance and Engineering Co., Ltd. for the purpose of building hangars in April 2017, November 2017 and October 2016, respectively.

The Group liquidated Freighter Princess Ltd. and Freighter Prince Ltd., because the lease contracts related to these subsidiaries expired, and a disposal loss of $61 thousand was recognized.

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

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the years ended December 31, 2017 and 2016 of these subsidiaries was reported according to information that was independently audited.

The Group's holding of the issued share capital of China Pacific Catering Services and China Pacific Laundry Services exceeded 50%, yet the Group did not have control over the investees. For related information, refer to Note 14,b.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2017	2016
Investments in associates	$ 1,576,753	$ 2,060,403
Investments in jointly controlled entities	930,593	806,028
	$ 2,507,346	$ 2,866,431

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

	December 31	
	2017	**2016**
Unlisted companies		
China Aircraft Services	$ 493,077	$ 515,051
Kaohsiung Catering Services	300,400	267,371
Asian Compressor Technology Services	-	279,176
Science Park Logistics	-	257,928
Airport Air Cargo Terminal (Xiamen)	483,814	467,041
Airport Air Cargo Service (Xiamen)	256,291	230,888
Eastern United International Logistics (Holdings) Ltd.	43,171	42,948
	$ 1,576,753	$ 2,060,403

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

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Associate	**2017**	**2016**
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	-	25%
Science Park Logistics	-	26%
Airport air Cargo Terminal (Xiamen)	28%	28%
Airport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

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

	2017	**2016**
China Aircraft Services	$ 24,470	$ 51,028
Kaohsiung Catering Services	86,757	75,674
Asian Compressor Technology Services	88,943	109,815
Science Park Logistics	21,819	26,136
Airport air Cargo Terminal (Xiamen)	22,381	14,307
Airport air Cargo Service (Xiamen)	27,886	24,742
Eastern United International Logistics (Holdings) Ltd.	4,806	5,617
	$ 277,062	$ 307,319

Other comprehensive income of associates accounted for using the equity method in 2017 and 2016 are losses in the amounts of $(740) thousands and $(1,325) thousand, respectively.

In August 2017, the Group sold all of its holdings of Science Park Logistics to a non-related party, HCT Logistics Co., Ltd. The agreed upon price was $380,850 thousand, and a disposal gain of $101,166 thousand was recognized.

In October 2017, the Group signed a contract with a non-related party, MB Aerospace, to sell all of its holdings of Asian Compressor Technology Services and reclassified it as noncurrent assets held for sale at book value. The transaction was completed and all payments were settled in January 2018.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were all independently audited, except those of China Aircraft Services and Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2017	**2016**
China Pacific Catering Services	$ 756,965	$ 638,980
China Pacific Laundry Services	171,229	167,048
NORDAM Asia Ltd.	2,399	-
	$ 930,593	$ 806,028

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

	Proportion of Ownership and Voting Rights	
	December 31	
	2017	**2016**
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia Ltd.	49%	-

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

To enhance the Group's maintenance capabilities, the Company established a joint venture with the US Nordam Aerospace Group in December 2017 to provide thrust reversers and composite repair services in Asia under the Nordam brand.

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

	For the Year Ended December 31	
	2017	**2016**
China Pacific Catering Services	$ 235,871	$ 208,039
China Pacific Laundry Services	23,354	21,628
NORDAM Asia Ltd.	(51)	-
	$ 259,174	$ 229,667

Other comprehensive income of associates accounted for using the equity method in 2017 and 2016 are losses in the amounts of $(41,477) thousand and $(65,531) thousand, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were all independently audited, except of NORDAM Asia Limited. However, the 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 6, "Names, Locations, And Other Information Of Investees Over Which The Company Exercises Significant Influence", and Table 7, "Investments In Mainland China", following these Notes to Consolidated Financial Statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2016	$ 976,427	$ 13,140,158	$ 229,849,035	$ 28,087,404	$ 15,167,890	$ 287,220,914
Additions	-	93,660	1,827,641	2,987	858,094	2,782,382
Disposals	-	(110,227)	(6,339,141)	(410,271)	(293,592)	(7,153,231)
Reclassification	-	406	22,924,544	1,218,771	252,436	24,396,157
Net exchange difference	(11,253)	(19,014)	-	-	(3,028)	(33,295)
Balance at December 31, 2016	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ (5,355,804)	$ (128,953,990)	$ (14,201,904)	$ (9,080,350)	$ (157,592,048)
Depreciation expense	-	(508,403)	(14,209,081)	(2,061,900)	(765,860)	(17,545,244)
Disposals	-	74,349	5,612,149	410,271	288,884	6,385,653
Impairment loss	-	-	(717,758)	-	-	(717,758)
Reclassification	-	-	2,375,572	6,690	631	2,382,893
Net exchange difference	-	8,303	-	155	1,856	10,314
Balance at December 31, 2016	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)
Cost						
Balance at January 1, 2017	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927
Additions	-	674,719	1,022,602	1,607	821,218	2,520,146
Disposals	-	(5,942)	(4,550,399)	(479,936)	(825,699)	(5,861,976)
Reclassification	-	-	18,692,862	(2,232,883)	260,432	16,720,411
Net exchange difference	(42,548)	(75,452)	-	(123)	(7,740)	(125,863)
Balance at December 31, 2017	$ 922,626	$ 13,698,308	$ 263,427,144	$ 26,187,556	$ 16,230,011	$ 320,465,645
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)
Depreciation expense	-	(393,458)	(15,178,386)	(1,919,407)	(848,492)	(18,339,743)
Disposals	-	3,926	4,022,977	619,775	415,421	5,062,099
Impairment loss	-	-	(690,579)	-	-	(690,579)
Reclassification	-	-	11,144,331	3,003,549	8,271	14,156,151
Net exchange difference	-	33,592	-	(101)	6,657	40,148
Balance at December 31, 2017	$ -	$ (6,137,495)	$ (136,594,765)	$ (14,142,872)	$ (9,972,982)	$ (166,848,114)

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

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

Regarding changes in fleet composition, current and forecasted market value, and other technical factors, the Group recognized impairment losses on aircraft equipment in 2017 and 2016 of $690,579 thousand and $717,758 thousand, respectively.

Refer to Note 33 for the carrying amounts of property, plant and equipment pledged by the Group.

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

The Group generated the following non-cash investment activities related to the purchase of property, plant and equipment in 2017:

	December 31, 2017
Increase in property, plant and equipment	$ 2,520,146
Decrease in retentions payable on construction contracts	18,895
Capitalized interest paid	(3,748)
Purchase of property, plant and equipment paid	$ 2,535,293

16. INVESTMENT PROPERTIES

	December 31	
	2017	**2016**
Carrying amount		
Investment properties	$ 2,075,624	$ 2,075,903

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

The fair value of the investment properties held by the Group were $2,506,230 thousand and $2,348,759 thousand as of both December 31, 2017 and 2016, respectively. The fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

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

	Cost	Accumulated	Net Value
Balance on January 1, 2016	$ 2,082,390	$ (6,208)	$ 2,076,182
Depreciation expense	-	(279)	(279)
Balance on December 31, 2016	$ 2,082,390	$ (6,487)	$ 2,075,903
Balance on January 1, 2017	$ 2,082,390	$ (6,487)	$ 2,075,903
Depreciation expense	-	(279)	(279)
Balance on December 31, 2017	$ 2,082,390	$ (6,766)	$ 2,075,624

17. OTHER INTANGIBLE ASSETS

	Computer Software Costs	Accumulated Amortization	Net Value
Balance at January 1, 2016	$ 1,623,186	$ (613,508)	$ 1,009,678
Additions	277,235	-	277,235
Amortization expense	-	(147,486)	(147,486)
Reclassification	(2,267)	-	(2,267)
Exchange influence	-	(45)	(45)
Balance at December 31, 2016	$ 1,898,154	$ (761,039)	$ 1,137,115
Balance at January 1, 2017	$ 1,898,154	$ (761,039)	$ 1,137,115
Additions	141,448	-	141,448
Amortization expense	-	(259,129)	(259,129)
Exchange influence	-	(89)	(89)
Balance at December 31, 2017	$ 2,039,602	$ (1,020,257)	$ 1,019,345

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

18. OTHER ASSETS

	December 31	
	2017	2016
Current		
Other financial assets	$ 1,806,413	$ 1,267,927
Temporary payments	464,258	355,003
Prepayments	2,834,936	2,429,741
Restricted assets	-	178,193
Others	895,931	407,638
	$ 6,001,538	$ 4,638,502
Noncurrent		
Prepayments for aircrafts	$ 10,942,604	$ 21,845,682
Prepayments - long-term	1,164,604	1,116,985
Refundable deposits	1,377,136	1,389,464
Restricted assets	161,398	144,835
Other financial assets	18,803	18,827
Others	-	30,289
	$ 13,664,545	$ 24,546,082

The prepayments for aircrafts comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and ATR72-600 aircrafts. For details of the contract for the purchase of the A350-900 and ART72-600 aircrafts, refer to Note 34. The rights to the six confirmed orders of 777-300 ER aircrafts were transferred to the aircraft leasing company upon delivery of the aircrafts. Then, all six aircrafts were leased back. As of May 2016, all the aircrafts had been delivered, and the Group was refunded with deposits for the aircraft purchases.

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

19. BORROWINGS

a. Short-term loans

	December 31	
	2017	2016
Bank loans - unsecured	$ 120,000	$ 135,000
Interest rates	1.04%-1.15%	1.51%-2%

b. Short-term and bills payable

	December 31	
	2017	2016
Commercial paper	$ -	$ 900,000
Less: Unamortized discount on bills payable	-	-
	$ -	$ 900,000
Annual discount rate	-	0.758%

c. Long-term debts

	December 31	
	2017	2016
Unsecured bank loans	$ 26,820,000	$ 33,993,999
Secured bank loans	32,176,074	18,100,914
Commercial paper		
Proceeds from issue	26,100,000	37,200,000
Less: Unamortized discount	37,897	64,186
	85,058,177	89,230,727
Less: Current portion	19,304,674	32,268,540
	$ 65,753,503	$ 56,962,187

For information on secured bank loans which were secured by freehold land, buildings, machinery equipment and flight equipment, refer to Note 33.

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, 2017	$ 58,996,074	$ -
December 31, 2016	51,045,365	32,536
Translated to New Taiwan dollars		
December 31, 2017	58,996,074	-
December 31, 2016	51,045,365	1,049,548
Interest rates		
December 31, 2017	0.92%-1.72%	-
December 31, 2016	0.92%-2.27%	0.8539%-4.39%

(Continued)

	Currency	
	New Taiwan Dollars	U.S. Dollars
Periods		
December 31, 2017	2007/5/24-2029/11/9	-
December 31, 2016	2005/3/4-2029/2/4	2005/1/18-2017/9/21

(Concluded)

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until December 2021, were used by the Group to guarantee commercial papers issued. As of December 31, 2017 and 2016, the commercial papers were issued at discount rates of 0.9983%-1.2897% and 1.0510%-1.4580%, respectively.

20. BONDS PAYABLE

	December 31	
	2017	2016
Unsecured corporate bonds first-time issued in 2013	$ 8,200,000	$ 10,900,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	-
Unsecured corporate bonds second-time issued in 2017	3,500,000	-
Convertible bonds - fifth time	1,667,100	1,638,044
	25,417,100	22,238,044
Less: Current portion and put option of convertible bonds	4,367,100	2,700,000
	$ 21,050,000	$ 19,538,044

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19

(Continued)

Category	Period	Conditions	Rate (%)
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 September of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.5.19-2020.5.19	Principal repayable on due date; indicator rate; payable annually	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to share capital or buying back, principal repayable in December of 2018	-

(Concluded)

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

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

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

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

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, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 31, 2016, there was adjustment the conversion price to NT$11.64, corporate bonds with a face value of $3,316,800 thousand had been converted to 270,985 thousand units of common shares.

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

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

On November 5, 2017, the Company's board of directors resolved to issue its 2018 second, five-year unsecured convertible bonds for $6,012,000 thousand, at a coupon rate of 100.2% and a conversion price set at NT$13.2, on January 30, 2018.

21. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2017	**2016**
Minimum lease payments -flight equipment		
Within one year	$ 1,580,000	$ 1,254,000
Later than one year and no later than five years	596,000	3,562,000
Present value of minimum lease payments	$ 2,176,000	$ 4,816,000
Interest rates	1.0617%-1.1317%	1.0323%-1.0980%

As of December 31, 2017, the Company leased engines and a total of three A330-300 aircrafts by sale-leaseback contracts 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 transactions. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Finance leases

Taiwan Air Cargo Terminal Co. (TACT) entered into a terminal construction contract. Refer to Note 34 for the terms of the contract. Dynasty Holiday Co., Ltd. signed a long-term equipment lease contract, and the lease contract is a finance lease contract.

	December 31	
	2017	**2016**
Minimum lease payments - cargo terminal and other		
Within one year	$ 37,484	$ 30,131
Beyond one year and within five years	40,851	85,244
	78,335	115,375
Less: Financial cost	(792)	(2,070)
Present value of minimum lease payments	$ 77,543	$ 113,305
Present value of minimum lease payments - cargo terminal and other		
Within one year	$ 37,321	$ 30,001
Beyond one year and within five years	40,222	83,304
	$ 77,543	$ 113,305
Discount rate	4.756%	4.756%
Total amount of present value of minimum lease payments		
Current	$ 1,617,321	$ 1,284,001
Noncurrent	636,222	3,645,304
	$ 2,253,543	$ 4,929,305

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

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

The rental rates stated in the aircraft lease agreements some are fixed and some are floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of December 31, 2017, the Group has rented eleven A330-300 planes, fifteen B737-800 planes, ten 777-300ER planes, six ERJ 190 planes, three ATR72-600 and ten A320-200 planes under operating contracts which the lease terms range from 6 to 12 years, with an extension option.

As of December 31, 2017 and 2016, the refundable deposits paid by the Group under operating lease contracts were $807,629 thousand and $982,988 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31, 2017 and 2016 were $1,394,791 thousand and $1,459,935 thousand, respectively.

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

	December 31	
	2017	2016
Up to 1 year	$ 11,499,501	$ 10,431,969
Over 1 year to 5 years	43,175,899	39,692,972
Over 5 years	29,762,766	33,360,179
	$ 84,438,166	$ 83,485,120

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

	For the Year Ended December 31	
	2017	2016
Minimum lease payments	$ 10,432,620	$ 10,723,726

22. OTHER PAYABLES

	December 31	
	2017	2016
Fuel costs	$ 3,484,288	$ 2,664,944
Ground service expenses	1,187,329	902,879
Repair expenses	926,686	968,371
Interest expense	290,902	294,751
Short-term employee benefits	2,550,551	1,926,538
Terminal surcharges	876,108	748,070
Commission expenses	407,109	391,857
Others	3,310,096	3,567,844
	$ 13,033,069	$ 11,465,254

23. DEFERRED REVENUE

	December 31	
	2017	2016
Frequent flyer programs	$ 2,450,877	$ 2,427,565
Advance ticket sales	15,743,177	14,202,198
	$ 18,194,054	$ 16,629,763
Current	$ 16,375,789	$ 14,820,860
Noncurrent	1,818,265	1,808,903
	$ 18,194,054	$ 16,629,763

24. PROVISIONS

	December 31	
	2017	2016
Operating leases - aircrafts	$ 8,489,308	$ 7,490,154
Current	$ 475,725	$ 81,925
Noncurrent	8,013,583	7,408,229
	$ 8,489,308	$ 7,490,154

	Aircraft Lease Contract
Balance at January 1, 2016	$ 6,187,481
Additional provisions recognized	2,613,011
Usage	(1,393,565)
Effect of exchange rate changes	83,227
Balance at December 31, 2016	$ 7,490,154
Balance at January 1, 2017	$ 7,490,154
Additional provisions recognized	3,201,642
Usage	(1,755,029)
Effect of exchange rate changes	(447,459)
Balance at December 31, 2017	$ 8,489,308

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

25. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

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

b. Defined benefit plans

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

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

	December 31	
	2017	**2016**
Present value of funded defined benefit obligation	$ 16,149,382	$ 15,119,110
Fair value of plan assets	(8,047,817)	(7,162,275)
Deficit (net defined benefit liabilities)	$ 8,101,565	$ 7,956,835

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities (Assets)**
Balance at January 1, 2016	$ 14,436,208	$ (3,882,634)	$ 10,553,574
Service cost			
Current service cost	742,100	-	742,100
Net interest expense (income)	161,780	(45,264)	116,516
Recognized in profit or loss	903,880	(45,264)	858,616
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	7,254	7,254
Actuarial (gain) loss - changes in demographic assumptions	6,094	-	6,094
Actuarial (gain) loss - changes in financial assumptions	(233,100)	-	(233,100)
Actuarial (gain) loss - experience adjustments	1,160,547	-	1,160,547
Recognized in other comprehensive income	933,541	7,254	940,795
Contributions from the employer	-	(4,221,019)	(4,221,019)
Benefits paid	(979,274)	979,274	-
Others	(175,245)	114	(175,131)
Balance at December 31, 2016	15,119,110	(7,162,275)	7,956,835

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Service cost			
Current service cost	$ 939,046	$ -	$ 939,046
Cost from consolidation	(319)	-	(319)
Net interest expense (income)	178,259	(90,471)	87,788
Recognized in profit or loss	1,116,986	(90,471)	1,026,515
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	23,429	23,429
Actuarial (gain) loss - changes in demographic assumptions	19,197	-	19,197
Actuarial (gain) loss - changes in financial assumptions	458,746	-	458,746
Actuarial (gain) loss - experience adjustments	520,343	-	520,343
Recognized in other comprehensive income	998,286	23,429	1,021,715
Contributions from the employer	-	(1,769,694)	(1,769,694)
Benefits paid	(951,194)	951,194	-
Others	(133,806)		(133,806)
Balance at December 31, 2017	$ 16,149,382	$ (8,047,817)	$ 8,101,565

(Concluded)

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

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

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

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

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

	December 31	
	2017	2016
Discount rate(s)	0.88%-1.25%	1.000%-1.625%
Expected rate(s) of salary increase	1.000%-2.000%	1.000%-2.000%

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, 2017
Discount rate(s)	
0.5% increase	$ (736,506)
0.5% decrease	798,561
Expected rate(s) of salary increase	
0.5% increase	768,588
0.5% decrease	(721,823)

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	
	2017	2016
The expected contributions to the plan for the next year	$ 887,216	$ 880,886
The average duration of the defined benefit obligation	8-12 years	7-13 years

26. EQUITY

a. Share capital

Common shares

	December 31	
	2017	2016
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	$ 54,709,846	$ 54,708,901

For the years ended December 31, 2017, the Company issued the 5th domestic unsecured convertible bonds, and holders of such bonds amounting to $1,100 thousand applied for conversion, for which 95 thousand of the Company's common shares were exchanged. In accordance with the law, the Company may apply for a change of registration after issuing new shares.

b. Capital surplus

	December 31	
	2017	2016
Issuance of shares in excess of par value and conversion premium	$ 552,696	$ 552,470
Expired employee share options	11,747	11,747
Long-term investments	955	1,019
Gain on sale of treasury shares held by subsidiaries	2,673	2,673
Bonds payable equity component	146,589	146,684
Others	85,339	85,339
	$ 799,999	$ 799,932

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

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

c. Appropriation of earnings and dividend policy

According to 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 shareholders' meeting for the distribution of dividends and bonuses to shareholders by cash or shares (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 shares with due consideration of finance, marketing and management requirements in accordance with the laws and regulations.

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

1) Appropriation of earnings in 2015

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

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

2) Appropriation of earnings in 2016

The legal reserve of $81,132 thousand and special reserve of $76,486 thousand used to offset deficits are subject to resolution by the shareholders in their meeting to be held on June 22, 2017.

3) Appropriation of earnings in 2017

The appropriation of earnings for 2017 should be resolved in the board of directors meeting to be held on March 22, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 145,831	
Special reserve	118,810	
Cash dividends	1,193,670	$0.2181820086

The appropriation of earnings should be resolved in the shareholders' meeting to be held on June 27, 2018.

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

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 Hedges	Total
Balance on January 1, 2016	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Exchange differences on translating foreign operations	(93,013)	-	-	(93,013)
Cash flow hedges on changes in fair value of hedging instruments	-	-	(278,201)	(278,201)
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	-	-	589,024	589,024
Share of associates accounted for using the equity method	-	(41)	-	(41)
Effect of income tax	13,618	-	(52,840)	(39,222)
Balance on December 31, 2016	$ 78,564	$ 1,714	$ 31,986	$ 112,264
Balance on January 1, 2017	$ 78,564	$ 1,714	$ 31,986	$ 112,264
Exchange differences on translating foreign operations	(136,476)	-	-	(136,476)
Cash flow hedges on changes in fair value of hedging instruments	-	-	(305,137)	(305,137)
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	-	-	176,927	176,927

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total
Share of associates accounted for using the equity method	$ -	$ 60	$ -	$ 60
Effect of income tax	22,926	-	21,795	44,721
Balance on December 31, 2017	$ (34,986)	$ 1,774	$ (74,429)	$ (107,641)

(Concluded)

e. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Beginning balance	$ 2,083,381	$ 2,286,647
Net income attributable to non-controlling interests	282,726	139,400
Foreign exchange differences	(3,598)	(19,079)
Actuarial gains and losses on defined benefit plans	(206,821)	(183,431)
Cash flow hedge on changes in fair value of hedging instruments	(131)	515
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	61	756
Effect on income tax	64,702	65,007
Acquisition of non-controlling interests in subsidiaries	(46,118)	(4,548)
Dividends paid by subsidiaries	(39,920)	(201,886)
Ending balance	$ 2,134,282	$ 2,083,381

f. Treasury shares

Treasury shares are the Company’s shares held by its subsidiaries as of December 31, 2017 and 2016 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
Year ended December 31, 2017			
Company’s shares held by its subsidiaries reclassified from investments in shares to treasury shares	2,889	-	2,889
Year ended December 31, 2016			
Company’s shares held by its subsidiaries reclassified from investments in shares to treasury shares	2,889	-	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2017			
Mandarin Airlines	2,075	$ 24,169	$ 24,169
Hwa Hsia	814	9,485	9,485
		$ 33,654	$ 33,654
December 31, 2016			
Mandarin Airlines	2,075	$ 19,294	$ 19,294
Hwa Hsia	814	7,572	7,572
		$ 26,866	$ 26,866

The above acquisitions by subsidiaries of the Company's shares in previous years were due to investment planning. The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' rights on these treasury shares, except for the rights to subscribe for the Company's new shares and voting rights.

27. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2017	2016
Passenger	$ 102,216,106	$ 95,282,373
Cargo	43,336,068	35,721,425
Others	10,569,611	10,075,309
	$ 156,121,785	$ 141,079,107

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income	$ 210,264	$ 242,801
Subsidy income	32,332	168,377
Dividend income	9,564	59,099
Others	308,239	288,862
	$ 560,399	$ 759,139

c. Other gains and losses

	For the Year Ended December 31	
	2017	**2016**
Gain on disposal property, plant and equipment and noncurrent assets held for sale	$ 258,620	$ 53,419
Net loss on financial assets held for trading	(32,039)	(35,678)
Gain (loss) on disposal of investments	101,105	(346)
Loss on foreign exchange, net	(51,756)	(629,965)
Impairment loss on noncurrent assets held for sale	(3,571,301)	(347,868)
Impairment loss on property, plant and equipment	(690,579)	(717,758)
Impairment loss on financial assets carried at cost	(56,023)	(71,826)
Others	(1,010,058)	(938,074)
	$ (5,052,031)	$ (2,688,096)

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. After consulting with the lawyers and considering the cost of litigation, the Company settled with the plaintiff in the amount of US$19,500 thousand, and the settlement was recognized in 2017 financial statement. The settlement funds will be divided into four-phase payments in three years.

d. Finance costs

	For the Year Ended December 31	
	2017	**2016**
Interest expense		
Bonds payable	$ 319,315	$ 294,890
Bank loans	974,535	912,945
Interest on obligations under financial leases	50,137	74,640
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	2,814	10,390
	$ 1,346,801	$ 1,292,865

Information of interest capitalization was as follows:

	For the Year Ended December 31	
	2017	**2016**
Capitalization interest	$ 216,305	$ 421,285
Capitalization rate	1.31%-1.41%	1.45%-1.73%

e. Depreciation and amortization expense

	For the Year Ended December 31	
	2017	2016
Property, plant, equipment	$ 18,339,743	$ 17,545,244
Investment properties	279	279
Intangible assets	259,129	147,486
Depreciation and amortization expense	$ 18,599,151	$ 17,693,009
An analysis of depreciation by function		
Operating costs	$ 17,667,649	$ 16,839,497
Operating expenses	672,373	706,026
	$ 18,340,022	$ 17,545,523
An analysis of amortization by function		
Operating costs	$ 281	$ 32
Operating expenses	258,848	147,454
	$ 259,129	$ 147,486

f. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plan	$ 482,586	$ 425,860
Defined benefit plan	1,026,515	858,616
	$ 1,509,101	$ 1,284,476
Other employee benefits		
Salary expenses	$ 20,287,418	$ 18,931,016
Personnel service expenses	5,578,306	5,249,939
	$ 25,865,724	$ 24,180,955
An analysis of employee benefits expense by function		
Operating costs	$ 22,640,698	$ 20,827,112
Operating expenses	4,734,127	4,638,319
	$ 27,374,825	$ 25,465,431

To be in compliance with the Company Act as amended, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the years ended December 31, 2017 and 2016, the employees' compensation was $799,768 thousand and $382,318 thousand, respectively, of the base net profit. The employees' compensation in cash for the years ended December 31, 2017 and 2016 was approved by the Company's board of directors on January 24, 2018 and January 17, 2017, respectively.

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

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

28. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
Current year	$ 148,743	$ 173,195
Prior year adjustment	1,364	(159)
Income tax on unappropriated earnings	-	3,085
Deferred tax		
Current year	883,064	992,790
Income tax expense recognized in profit or loss	$ 1,033,171	$ 1,168,911

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

	For the Year Ended December 31	
	2017	2016
Profit before tax	$ 3,523,963	$ 1,879,851
Income tax expense calculated at the statutory rate (17%)	$ 599,074	$ 319,574
Effect on different tax of subsidiaries govern by other region	19,209	33,055
Effect on adjustment to income tax		
Non-deductible expenses in determining taxable income	5,593	145,181
Temporary differences	642,737	(478,805)
Tax-exempt income	(95,556)	(88,767)
Additional income tax under the Alternative Minimum Tax Act	9,906	-
Income tax on unappropriated earnings	-	3,085
Loss carryforwards - current used	(1,061,324)	(12,495)
Loss carryforwards - generated	11,630	235,828
Oversea income tax expense	17,474	19,624
Deferred tax		
Temporary differences	272,772	350,309
Unrecognized loss carryforwards, investment tax credits and temporary difference	610,292	642,481
Adjustments for prior years' tax	1,364	(159)
Income tax expense recognized in profit or loss	$ 1,033,171	$ 1,168,911

b. Income tax recognized in other comprehensive income

	2017	2016
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 23,612	$ 19,101
Hedging instruments fair value revaluation for cash flow hedging	21,807	(53,056)
Actuarial gain or loss on defined benefit plan	173,691	159,935
Total income tax recognized in other comprehensive income	$ 219,110	$ 125,980

c. Deferred tax assets and liabilities

For the year ended December 31, 2017

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plans	$ 1,351,205	$ (143,358)	$ 173,691	$ -	$ 1,381,538
Frequent flyer programs	421,695	4,411	-	-	426,106
Maintenance reserves	1,250,075	257,210	-	-	1,507,285
Allowance for reduction of inventory	200,841	38,274	-	-	239,115
Others	651,976	469,902	22,623	(630)	1,143,871
Loss carryforwards	2,380,873	(1,559,456)	-	-	821,417
	$ 6,256,665	$ (933,017)	$ 196,314	$ (630)	$ 5,519,332
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gains	$ -	$ 915	$ -	$ -	$ 915
Depreciation difference from fixed assets	85,949	(54,939)	-	-	31,010
Others	187,661	4,071	(22,796)	(10,179)	158,757
	$ 273,610	$ (49,953)	$ (22,796)	$ (10,179)	$ 190,682

For the year ended December 31, 2016

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

In February 2018, it was announced that the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as of December 31, 2017 are expected to be adjusted and increase by $974,000 thousand and $33,650 thousand, respectively, in 2018.

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

	December 31	
	2017	2016
Loss carryforwards		
2019	$ 10,900,000	$ 7,300,000
2020	-	22,020
2021	17,929	80,080
2022	9,617	125,568
2023	71,861	127,707
2024	34,048	233,693
2025	221,121	638,257
2026	1,184,297	1,126,110
2027	68,415	-
	$ 12,507,288	$ 9,653,435
Difference in depreciation	$ 323,173	$ 229,761

d. Unused tax loss carryforwards as of December 31, 2017 were as follows:

Expiry Year	Unused Amount
China Airlines, Ltd.	
2019	$ 11,764,885
2021	2,899,496
2022	619,799
2026	202,699
	$ 15,486,879
Mandarin Airline Co., Ltd.	
2026	$ 594,300
Tigerair Taiwan Co., Ltd.	
2025	169,222
2026	752,730
	$ 921,952

(Continued)

Expiry Year	Unused Amount
Cal Hotel Co., Ltd.	
2021	17,929
2022	9,617
	$ 27,546
Taiwan Air Cargo Terminal Limited	
2023	$ 71,861
2024	34,048
2025	33,775
2026	43,511
	$ 183,195
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	
2025	$ 18,124
2026	31,476
2027	68,415
	$ 118,015
Hwa Hsia	
2026	$ 7,265

(Concluded)

e. Integrated income tax

	December 31	
	2017	2016
Imputation credit accounts	$ 195,252	$ 102,527

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

Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

f. Income tax assessment

The income tax returns for 2015 of the Company and its subsidiaries, have been examined by the tax authorities.

29. EARNING PER SHARE

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

	For the Year Ended December 31	
	2017	2016
Basic earnings per share	$ 0.40	$ 0.10
Diluted earnings per share	$ 0.39	$ 0.10

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic earnings per share	$ 2,208,066	$ 571,540
Effect of potentially dilutive common shares:		
Interest on convertible bonds (after tax)	24,801	-
Earnings used in the computation of diluted earnings per share	$ 2,232,867	$ 571,540

	For the Year Ended December 31	
	2017	2016
Weighted average number of common shares in computation of basic earnings per share	5,468,030	5,468,002
Effect of potentially dilutive common shares:		
Convertible bonds	145,763	-
Employees' compensation or bonuses issued to employees	70,259	47,337
Weighted average number of common shares used in the computation of diluted earnings per share	5,684,052	5,515,339

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonuses 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.

30. CAPITAL MANAGEMENT

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

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

31. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

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

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 25,417,100	$ 25,818,511	$ 22,238,044	$ 22,580,069
Loans and debt	85,058,177	87,070,820	89,230,727	91,315,640

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of December 31, 2017 and 2016, 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 0.75% and 1.191%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

2) Fair value measurements recognized in the balance sheets

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

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

b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Beneficial certificates	$ 306,839	$ -	$ -	$ 306,839
Financial liabilities at FVTPL				
Derivative instruments	$ -	$ 9,581	$ -	$ 9,581
Derivative financial assets for hedging	$ -	$ 293	$ -	$ 293
Derivative financial liabilities for hedging	$ -	$ 89,289	$ -	$ 89,289

December 31, 2016

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

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

d) Valuation techniques and inputs applied for 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 Level 3 fair value measurement

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

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

b. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Financial assets at FVTPL	$ 306,839	$ 416,641
Available-for-sale financial assets (Note 3)	84,075	140,357
Derivative financial assets for hedging	293	61,717
Loans and receivables (Note 1)	35,276,119	36,576,111
Financial liabilities		
Financial liabilities at FVTPL	9,581	-
Derivative financial liabilities for hedging	89,289	23,629
Financial liabilities at amortized cost (Note 2)	127,928,250	130,110,449

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

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

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

c. Financial risk management objectives and policies

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

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

1) Market risk

The Group is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. The Group enters into foreign exchange forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

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

<u>Sensitivity analysis</u>

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

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

When the New Taiwan dollar strengthens one dollar against the U.S. dollar and all other variables were held constant, there will be an increase in pre-tax profit in 2017 of $60,437 thousand and a decrease in pre-tax profit in 2016 of $47,622 thousand.

b) Interest rate risk

The Group enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	December 31	
	2017	**2016**
Fair value interest rate risk	$ 27,537,100	$ 26,093,421
Cash flow interest rate risk	85,311,720	91,339,655

Sensitivity analysis

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

Had interest rates increased one yard (25 basis) points higher and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2017 would have decreased by $213,279 thousand.

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

c) Other price risk

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

Sensitivity analysis

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

	For the Year Ended December 31, 2016	
	Pre-tax Profit Increase (Decrease)	**Other Comprehensive Income Increase (Decrease)**
Fuel price increase of 5%	$ 75	$ (110)
Fuel price decrease of 5%	-	(185)

The Group depends on the market of fuel and the cost of hedging to enter into fuel swap contracts to hedge against adverse risk on fuel price changes. There is no outstanding fuel swap contracts for the years ended December 31, 2017.

2) Credit risk

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

Operation - related credit risk

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

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers. Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

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

3) Liquidity risk

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

Liquidity and interest risk rate table

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

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

December 31, 2017

	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	1.2090	$ 236,138	$ 1,406,511	$ 193,648	$ 455,544	$ -
Floating interest rate liabilities	1.1251	7,270,988	12,906,591	18,465,141	28,374,270	18,151,425
Fixed interest rate liabilities	1.1800	5,900	17,700	2,023,600	-	-
Derivative instruments	-	28,410	53,885	6,994		
Bonds payable	1.4142	2,790,923	1,911,231	301,932	20,651,932	1,014,142
		$ 10,332,359	$ 16,295,918	$ 20,991,315	$ 49,481,746	$ 19,165,567

December 31, 2016

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.1462	$ 335,590	$ 1,002,171	$ 3,040,196	$ 656,351	$ -
Floating interest rate liabilities	1.192	4,684,754	27,758,614	15,705,615	33,282,382	7,428,296
Fixed interest rate liabilities	0.016	401,301	419,159	-	-	-
Derivative instruments	-	2,655	18,200	2,775	-	-
Bonds payable	1.3384	74,408	2,923,225	4,599,541	15,403,437	-
		$ 5,498,708	$ 32,121,369	$23,348,127	$ 49,342,170	$ 7,428,296

Loan commitments

	December 31	
	2017	2016
Unused bank loan limit (unsecured)	$ 25,181,000	$ 14,424,006

32. RELATED-PARTY TRANSACTIONS

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

a. Related parties' names and relationships

Name	Relationship with the Company
Kaohsiung Catering Services	Associate
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
Nordam Asia Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relative

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31 2017	2016
Other income	Major shareholder of the Company	$ 31,971	$ 28,328
	Associate	$ 1,938	$ 2,552
	Joint venture investment	$ 46,461	$ 14,325

c. Purchases

Related Party Type	For the Year Ended December 31 2017	2016
Major shareholder of the Company	$ 71,852	$ 63,084
Associate	$ 745,686	$ 656,653
Joint venture investment	$ 1,857,684	$ 1,613,899

d. Accounts receivable - related parties (generated by operations)

Related Party Type	December 31 2017	2016
Associate	$ -	$ 501
Joint venture investment	6,431	1,549
Major shareholder of the Company	1,928	1,512
	$ 8,359	$ 3,562

The receivables are not guaranteed, and there is no allowance for doubtful accounts related to accounts receivable - related parties. The payment periods of such accounts were within 30 to 90 days, and there are no overdue payments.

e. Accounts payable - related parties (generated by operations)

Related Party Type	December 31 2017	December 31 2016
Associate	$ 116,525	$ 120,824
Joint venture investment	469,827	431,502
Major shareholder of the Company	4,454	3,503
	$ 590,806	$ 555,829

The remaining balance of notes and accounts payable - related parties will be paid in cash if they are not secured.

f. Leases of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental on usage hours. In 2017 and 2016, the Company had paid rentals of about $71,852 thousand and $63,084 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2017		2016	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
Cal Park	$ 3,850,000	$ 2,850,000	$ 3,850,000	$ 2,783,000
Taiwan Air Cargo Terminal	1,080,000	318,611	1,080,000	436,418
Cal Hotel	-	-	180,000	-
Tigerair Taiwan	1,055,604	405,998	919,742	438,740

h. Compensation of key management personnel

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Short-term employee benefits	$ 46,805	$ 47,748
Post-employment benefits	4,007	12,269
	$ 50,812	$ 60,017

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

33. PLEDGED ASSETS

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

	December 31	
	2017	2016
Property, plant and equipment	$ 39,821,666	$ 54,552,306
Restricted assets - noncurrent		
Pledged certificate deposits	161,398	323,028
	$ 39,983,064	$ 54,875,334

34. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2017, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate purchase prices of US$3,933,235 thousand and US$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of December 31, 2017, ten of the aircrafts had been handed over to the Company, and the total list price of the remaining four aircrafts was US$1,150,984 thousand, which has been paid in the amount of US$287,746 thousand (recognized as prepayments for aircrafts).

b. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircrafts, and the total list price of the six aircrafts was $120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, which has been paid in the amount of US$12,856 thousand (recognized as prepayments for aircrafts). Additionally, Mandarin Airlines signed a lease contract for three ATR72-600 aircrafts, which were delivered in 2017.

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

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

   As of December 31, 2017, TACT had signed the following construction contracts with unrelated parties:

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	$ 552,285

As of December 31, 2017, the cumulated consultant service expense and construction equipment had amounted to $473,599 thousand (VAT included) and $5,051,184 thousand (VAT included), respectively. Upon completion of the projects, the amount of $460,578 thousand (VAT included) and $5,051,184 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

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

TACT should pay royalties to Taoyuan Airport Corporation and the CAA during the chartered operation period. The calculation is based on annual sales (including operating and nonoperating revenue but excluding the rental revenue from specific districts), and Taoyuan Airport Corporation and the CAA have the option to adjust the royalty rates every 3 years starting from the date of transfer of the chartered operation rights on the basis of actual revenue and expenditures. The current royalty rate is 6%.

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

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

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

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

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

e. Taiwan Aircraft Maintenance Company contracted out Ronggong Engineering Co., Ltd. for a construction repair project. The contract expiration date is November 5, 2018, and the estimated total cost of the project is $1.906 billion. As of December 31, 2017, $301,069 thousand was paid (recognized as construction in progress).

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 351,902	29.8507	$ 10,504,521
EUR	21,358	35.7143	762,786
HKD	293,872	3.8183	1,122,091
JPY	6,147,548	0.2648	1,627,871
CNY	469,241	4.5830	2,150,530
Financial liabilities			
Monetary items			
USD	418,839	29.8507	12,503,415
EUR	5,971	35.7143	213,250
HKD	87,927	3.8183	335,732
JPY	4,972,250	0.2648	1,316,652
CNY	150,678	4.5830	690,557

December 31, 2016

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

For the years ended December 31, 2017 and 2016, the Group's net foreign exchange losses were $51,756 thousand and $629,965 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

36. 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) Endorsements/guarantees 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: Table 3 (attached)

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

6) Disposals 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 4 (attached)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 5 (attached)

9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached)

10) Derivative financial transactions (Notes 7 and 8)

b. Investment in mainland China: Table 7 (attached)

c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (attached)

37. SEGMENT INFORMATION

a. Segment information

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

	For the Year Ended December 31, 2017			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	$ 154,512,384	$ 7,984,517	$ (6,375,116)	$ 156,121,785
Operation profit and losses	$ 7,909,490	$ 916,670	$ -	$ 8,826,160
Interest revenue				210,264
Investments income accounted for using the equity method				536,236
Revenue				626,533
Financial costs				(1,346,801)
Expenses				(5,328,429)
Profit before income tax				$ 3,523,963
Identifiable assets	$ 147,311,342	$ 8,381,813		$ 155,693,155
Investments accounted for using the equity method				2,507,346
Assets				67,699,131
Total assets				$ 225,899,632

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

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2017 and 2016 are listed below:

	For the Year Ended December 31, 2017								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 43,823,702	$ 32,933,348	$ 34,290,529	$ 13,226,468	$ 4,727,678	$ 18,990,132	$ 14,505,044	$ (6,375,116)	$ 156,121,785
Operation profit and losses	$ 2,066,002	$ 2,498,885	$ (932,071)	$ 818,324	$ (272,090)	$ 2,503,460	$ 2,143,650	$ -	$ 8,826,160
Interest revenue									210,264
Investments income accounted for using the equity method									536,236
Revenue									626,533
Interest expenses									(1,346,801)
Expenses									(5,328,429)
Profit before income tax									$ 3,523,963
Identifiable assets	$ 1,324,134	$ 18,838	$ 91,893	$ 4,407	$ 3,616	$ 9,178	$ 154,241,089	$ -	$ 155,693,155
Investments accounted for using the equity method									2,507,346
Assets									67,699,131
Total assets									$ 225,899,632

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

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	$ 11,404,647	$ 3,850,000	$ 3,850,000	$ 2,850,000	-	6.75	$ 28,511,619	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,404,647	1,080,000	1,080,000	318,611	-	1.89	28,511,619	Y	N	N
		Cal Hotel	100% subsidiary	11,404,647	180,000	-	-	-	-	28,511,619	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,404,647	1,079,101	1,055,604	405,998	-	1.85	28,511,619	Y	N	N

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

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

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(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, 2017				Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines (“Parent company”)	Shares							
	Everest Investment Holdings Ltd. - common shares	-	Financial assets carried at cost - noncurrent	1,359,368	$ 52,704	13.59	$ 60,524	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	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	27,960	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	-	15.00	9,167	-
Mandarin Airlines	Shares							
	China Airlines	Parent company	Available-for-sale financial assets - current	2,074,628	24,169	-	24,169	-
	Beneficiary certificates							
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	30,030	-	30,030	-
Cal-Asia Investment	Shares							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	-	2.59	31,152	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	19,898	5.45	25,434	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,709,255	68,926	-	68,926	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,664,992	86,148	-	86,148	-
	Allianz Global Investors Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,368,495	66,869	-	66,869	-
Taiwan Airport Services	Shares							
	TransAsia Airways	-	Available-for-sale financial assets - noncurrent	2,277,786	-	0.40	-	-
	Beneficial certificates							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	4,568,824	50,166	-	50,166	-
Hwa Hsia	Shares							
	China Airlines	Parent company	Available-for-sale financial assets - current	814,152	9,485	-	9,485	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,700	-	4,700	-

Note 1: The subsidiary’s net asset value was $60,524 thousand, which included common shares and preference shares as of and for the year ended December 31, 2017.

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

TABLE 3

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
China Airlines, Ltd.	Shares													
	Science Park Logistics	Investments accounted for using the equity method	HCT Logistics Co., Ltd.	Non-related party	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Investments accounted for using the equity method	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Subsidiary	-	-	-	-	-	-	-	-	-	-

Note 1: The marketable securities in this table refer to shares, bonds, beneficial certificates and the securities derived from the above items.

Note 2: Marketable securities which are recognized as investments accounts for using the equity method are required to be filled in the second column.

Note 3 The cumulative amount of acquired and disposed of marketable securities are required to be calculated separately to determine whether they are at least NT$300 million or 20% of the paid-in capital.

Note 4 Paid-in capital refers to paid-in capital of the indicated parent company. If the shares issued by an issuer have no par value or a par value other than NT$10 per share, the threshold of 20% of paid-in capital, as set out in the preceding item, shall be replaced by 10% of equity attributable to owners of the indicated parent company, as stated in the respective balance sheet.

TABLE 4

CHINA AIRLINES, LTD. AND INVESTEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. (“China Airlines”)	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 507,489	0.42	30 days	$ -	-	$ (48,735)	(3.34)	-
	Hua Hsia	Subsidiary	Purchase	334,375	0.27	2 months	-	-	(49,140)	(3.37)	-
	Mandarin Airlines	Subsidiary	Sale	(2,495,101)	(1.78)	2 months	-	-	452,488	4.99	-
	Mandarin Airlines	Subsidiary	Purchase	147,914	0.12	2 months	-	-	(339,274)	(23.28)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,737,819	1.43	90 days	-	-	(440,739)	(30.24)	-
	Cal Park	Subsidiary	Purchase	228,942	0.19	2 months	-	-	-	-	-
	Taiwan Airport Services	Subsidiary	Purchase	375,579	0.31	40 days	-	-	(67,871)	(4.66)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,193,551	0.98	40 days	-	-	(355,885)	(24.42)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	376,678	0.31	60 days	-	-	(70,948)	(4.87)	-
	China Aircraft Services	Equity-method investee	Purchase	197,713	0.16	30 days	-	-	(30,260)	(2.08)	-
	Cal Hotel	Subsidiary	Purchase	136,681	0.11	1 month	-	-	(10,140)	(0.70)	-
	Tigerair Taiwan	Subsidiary	Sale	(288,954)	(0.21)	1 month	-	-	38,796	0.43	-
	China Pacific Laundry Services	Equity-method investee	Purchase	119,865	0.10	2 months	-	-	(29,088)	(2.00)	-
	Eastern United International Logistics	Equity-method investee	Purchase	138,905	0.11	2 months	-	-	(14,769)	(1.01)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	152,384	2.59	30 days	-	-	(30,344)	(4.79)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	121,505	1.78	1 month	-	-	(17,825)	(1.42)	-

TABLE 5

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, 2017
(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	$ 452,488	Note	$ -	-	$ 271,899	$ -
Mandarin Airlines	China Airlines	Parent company	339,274	Note	-	-	307,390	-
China Pacific Catering Services	China Airlines	Parent company	440,739	4.08	-	-	440,698	-
Taoyuan International Airport Service	China Airlines	Parent company	355,885	3.51	-	-	355,764	-

Note: Accounts receivable and revenue were not directly correlated because of the particular industry characteristics, and therefore the turnover rate was not applicable.

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2017
(New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2017	December 31, 2016	Number of Shares/Units	Percentage of Ownership (%)	Carrying Amount			
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	$ 1,500,000	$ 1,500,000	150,000,000	100.00	$ 1,522,696	$ 10,017	$ 10,017	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,211,739	125,570	118,023	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,339,450	190,444	102,840	-
	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	1,185,323	34,695	34,695	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	756,965	472,248	235,871	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	654,104	248,207	121,622	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	478,933	31,191	31,191	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	450,600	182,046	171,004	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	493,077	122,349	24,470	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	3,704	77,322	370,440	-	-	363,033	88,943	Note 5
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	259,459	108,331	51,295	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	300,400	242,473	86,757	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	435,965	48,590	48,590	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	-	214,745	-	-	-	83,919	21,819	-
	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	171,229	42,461	23,354	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	83,014	11,280	11,280	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,904	440	440	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	25,992	(4,725)	(2,410)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,437	6,876	1,719	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ -	US$ 1	-	-	-	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	-	US$ 1	-	-	-	-	-	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	915,135	572,953	514,897	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	160,000	135,000,000	100.00	1,231,548	(68,580)	(68,580)	Note 4
	Nordam Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	2,450	-	245,000	49.00	2,399	(104)	(51)	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	101,682	572,953	57,295	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	5,902	108,330	1,167	-
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	43,171	13,726	4,804	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	370,322	25,143	25,143	Note 3

Note 1: Adopted the treasury shares 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 shares because it is a limited company.

Note 4: Taiwan Aircraft Maintenance and Engineering Co., Ltd. invested capital in the amount of $490,000 thousand and $700,000 thousand in April 2017 and November 2017, respectively.

Note 5: The Company signed a contract to sell all of its holding in Asian Compressor Technology Services and reclassified it as noncurrent assets held for sale at book value.

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(New Taiwan Dollars/Renminibi/U.S. Dollars In Thousands, 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, 2017	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,028,781 (RMB 224,480)	Indirect (Note 1)	$ 124,955 (US$ 4,186)	$ -	$ -	$ 124,955 (US$ 4,186)	$ 79,880 (RMB 17,741)	14.00	$ 12,098 (RMB 2,484)	$ 242,549 (RMB 52,924)	$ 83,634 (US$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 1)	58,133 (US$ 1,947)	-	-	58,133 (US$ 1,947)	99,528 (RMB 22,105)	14.00	13,952 (RMB 3,095)	128,035 (RMB 27,937)	$ 26,129 (US$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,101,194 (US$ 36,890)	Indirect (Note 1)	64,215 (US$ 2,151)	-	-	64,215 (US$ 2,151)	-	2.59	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	348,149 (US$ 11,663)	Indirect (Note 1)	18,985 (US$ 636)	-	-	18,985 (US$ 636)	-	5.45	-	19,898 (RMB 4,342)	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$266,287 (US$8,920)	$647,805 (Note 3)	$34,213,942 (Note 4)

(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, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,028,781 (RMB 224,480)	Indirect (Note 5)	$ 119,951 (US$ 4,018)	$ -	$ -	$ 119,951 (US$ 4,018)	$ 79,880 (RMB 17,741)	14.00	$ 11,183 (RMB 2,484)	$ 241,265 (RMB 52,644)	$ 113,622 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 5)	57,515 (US$ 1,927)	-	-	57,515 (US$ 1,927)	99,528 (RMB 22,105)	14.00	13,934 (RMB 3,095)	128,256 (RMB 27,985)	41,988 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$177,466 (US$5,945)	$177,466 (US$5,945)	$328,776 (Note 4)

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 inward remittance of earnings in 2017 amounted to US$2,801,749 and US$875,330.

Note 3: The amount comprised US$19,828,324, RMB4,200,000 and NT$36,666,667.

Note 4: 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 5: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 6: The RMB and U.S. dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Mandarin Airlines	a	Passenger revenue	$ 2,184,703	The same as ordinary transactions	1.40
		Mandarin Airlines	a	Other operating revenue	310,398	The same as ordinary transactions	0.20
		Tigerair Taiwan Co., Ltd.	a	Other operating revenue	288,954	The same as ordinary transactions	0.19
		Taoyuan International Airport Services	a	Airport service costs	1,193,551	The same as ordinary transactions	0.76
		Taiwan Airport Service	a	Airport service costs	375,579	The same as ordinary transactions	0.24
		Hwa Hsia	a	Airport service costs	334,375	The same as ordinary transactions	0.21
		Mandarin Airlines	a	Passenger costs	147,914	The same as ordinary transactions	0.09
		Taiwan Air Cargo Terminal	a	Other operating costs	507,489	The same as ordinary transactions	0.33
		Cal Park	a	Other operating costs	228,942	The same as ordinary transactions	0.15
		Cal Hotel Co., Ltd.	a	Other operating costs	136,681	The same as ordinary transactions	0.09
		Mandarin Airlines	a	Accounts receivable - related parties	452,488	The same as ordinary transactions	0.20
		Mandarin Airlines	a	Accounts payable - related parties	339,274	The same as ordinary transactions	0.15
		Taoyuan International Airport Services	a	Accounts payable - related parties	355,885	The same as ordinary transactions	0.16
		Mandarin Airlines	a	Bonds payable	250,000	The same as ordinary transactions	0.11
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	507,489	The same as ordinary transactions	0.33
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	147,914	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Passenger costs	2,184,703	The same as ordinary transactions	1.40
		Taiwan Airport Service	c	Airport service costs	121,505	The same as ordinary transactions	0.08
		China Airlines, Ltd.	b	Operating expenses	310,398	The same as ordinary transactions	0.20
		China Airlines, Ltd.	b	Accounts receivable - related parties	339,274	The same as ordinary transactions	0.15
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes payable - related parties	452,488	The same as ordinary transactions	0.20
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	1,193,551	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Accounts receivable - related parties	355,885	The same as ordinary transactions	0.16
		Tigerair Taiwan Co., Ltd.	c	Airport service revenue	152,384	The same as ordinary transactions	0.76
4	Taiwan Airport Service	China Airlines, Ltd.	b	Operating revenue	375,579	The same as ordinary transactions	0.24
		Mandarin Airlines	c	Operating revenue	121,505	The same as ordinary transactions	0.08
5	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	334,375	The same as ordinary transactions	0.21
6	Cal Park	China Airlines, Ltd.	b	Operating revenue	228,942	The same as ordinary transactions	0.15

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
7	Cal Hotel Co., Ltd.	China Airlines, Ltd.	b	Operating revenue	$ 136,681	The same as ordinary transactions	0.09
8	Tigerair Taiwan Co., Ltd.	China Airlines, Ltd.	b	Operating expenses	288,954	The same as ordinary transactions	0.19
		Taoyuan International Airport Services	c	Airport service costs	152,384	The same as ordinary transactions	0.07

Note 1: The three directional types for transactions by business relationship between China Airlines, Ltd. and its subsidiaries are as follows:

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

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

Note 3: The Company only discloses transaction amounts or balances of more than $100,000 thousand.

(Concluded)