

Stock Code: 2610



CHINA AIRLINES

2018 Annual Shareholders' Meeting

Agenda Handbook

Time: June 27, 2018 (Wed.), 9:00 AM

Location: Novotel Taipei Taoyuan International Airport, No.1-1, Hangzhan S. Rd., Dayuan Dist., Taoyuan City 33758, Taiwan

(Summary Translation)

This document is based on the Chinese version and is for reference only. In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

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China Airlines 2018 Annual Shareholders' Meeting Agenda

Time: June 27, 2018 (Wed.), 9:00 AM

Location: Novotel Taipei Taoyuan International Airport, No. 1-1, Hangzhan S. Rd, Dayuan Dist., Taoyuan City 33758, Taiwan

- 1. Presentation of Report to Shareholders and Meeting Called to Order**
- 2. Chairman's Address**
- 3. Matters to Report**
 - (1) Business Report for the year 2017
 - (2) Audit Committee's review report for the year 2017
 - (3) Proposal for distribution of 2017 employee compensation
 - (4) Status report on the Unsecured Ordinary Corporate Bonds of NT\$5.85 billion issued in 2017
 - (5) Status report on the domestic 6th Unsecured Convertible Bonds
 - (6) 744GE Aircraft Service Life Change Report
- 4. Matters for Acknowledgement**
 - (1) Acknowledgement of Business Report and Financial Statements for the year 2017
 - (2) Acknowledgement of proposal for distribution of 2017 profits
- 5. Election Matters**

Proposal to elect the 21st Directors
- 6. Other Matters**

Proposal to release non-compete restrictions on the 21st Directors
- 7. Questions and Motions**
- 8. Meeting Adjournment**

Matters to Report

Agenda Item #1

Description: Business Report for the year 2017. To be reviewed by all parties.

Details: Please refer to pages 3-5 of this handbook.

Business Report for the year 2017

Looking back over 2017, there were many new challenges, both internal and external. There were changes to the global political situation, frequent terrorist attacks, a steady rise in oil prices, weather calamities brought on by climate change, and internal labor disputes. Although the year was not a quiet one, the China Airlines team still listened to the voices of all its stakeholders and held fast to its value of "Believe In Yourself and You'll Do It Better". Keeping passenger safety and shareholder benefit as its primary considerations, the team came together to face and overcome every obstacle to achieve its mission of "Creating More Beauty for You and Me Through Flight".

Updates to flight crews and passenger cabins continued, as China Airlines brought 6 next generation A350-900 long haul aircraft into service in 2017 combining the next generation design concepts of Eastern aesthetics with youthful innovation; at the same time, the company won accolades in Taiwan and abroad for its insistence on the best hardware, software and service. These included Global Traveler's "Best Business Class Seat Design" and "Beat Airline in Northeast Asia", a five-star service award from Global Views Monthly, Air Cargo World's "Global Air Cargo Certificate of Excellence", and a designation as a "Gold Trusted Brand" by Reader's Digest Asia. China Airlines was further rated a "New Century Top 20 Employer" by Cheers Magazine, and its operations team not only increased the group's competitiveness, but also made the airline a company employees can trust and the first choice of passengers.

As the leading enterprise on the Taiwan airline market, China Airlines has been praised both in Taiwan and abroad for its active promotion of economic, environmental and social sustainability. Not only was the company listed for the second consecutive year in the Dow Jones Sustainability Indices, it was also honored with multiple "TCSA Taiwan Sustainable Enterprise Awards". Sustainable operations have gradually become the key to future development in the airline industry.

In 2017, China Airlines turned in a dazzling overall performance. Turning in such an outstanding result depended on the hard work of all its employees, cooperation from its partners, the trust of its passengers and support from its shareholders. In the future, China Airlines will take a prudent yet optimistic attitude in continuing to optimize the fleet and its allocation, integrate the resources of the company and the group, and provide outstanding products and services to bring everyone onto a new page of China Airlines history.

1. Operating Performance in 2017

Operating revenue in NT dollars (same hereafter) was NT\$139.815 billion, a 9.64% increase over the last year, After-tax net profit was NT\$2.208 billion, for a basic after-tax net profit of NT\$0.40 per share.

- **Fleet:**

As of the end of December, the company held 79 passenger aircraft (including leased aircraft) and 21 cargo aircraft, for a total of 100. In 2017, the company leased 2 Boeing 737-800 passenger airliners, for a period of 8 years; 6 Airbus A350-900 passenger aircraft were also brought in. Two 747-400 and four 737-800 passenger planes were sold.

- **Passenger flights:**

Revenue from passenger business was NT\$90.56 billion, a 4.94% increase over the last year, accounting for 64.77% of total operating revenue. As of the end of 2017, the China Airlines Group flew to 22 countries and 79 passenger destinations, spanning Asia, Europe, the Americas and Oceania. On average, there are 680 round-trip flights per week.

- **Cargo flights:**

Cargo business income was NT\$42.97 billion, a 21.54% increase over the last year, accounting for 30.73% of total operating revenue. As of the end of December, the China Airlines group flew 18 cargo plans in cargo operations, flying to 15 countries and 33 destinations spanning Asia, Europe and the Americas. Each week, there were an average of 93 cargo flights.

- **Other operating income:**

Other operating revenue included in-flight duty-free sales revenue, a total of NT\$6.285 billion, a 7.02% increase over the last year, accounting for 4.5% of total operating revenue.

- Investments and earnings:

As of the end of December, the company had investment in a total of 34 companies, areas of business such as air business, ground services, logistics, aircraft maintenance, air cargo station business, etc. contributed NT\$1.628 billion revenue over the year.

2. Business cash flow budget and profitability analysis

- Cash flow:

Operating revenue was NT\$139.815 billion, up 12.29 billion over last year. Operating costs and expenses were NT\$132.457 billion, up NT\$9.408 billion over last year.

Pre-tax net profit was NT\$3.088 billion, up NT\$1.551 billion over last year.

After-tax net profit was NT\$2.208 billion, up NT\$1.636 billion over last year.

- Budget execution:

Projected operating revenue was NT\$138.889 billion, and actual operating revenue was NT\$139.815 billion, for a 100.67% attainment; projected operating costs and fees were NT\$133.31 billion, and actual operating costs were NT\$132.457 billion, a spend rate of 99.36%. Projected losses from non-operating activities were NT\$5.225 billion, with actual losses from non-operating activities at NT\$4.27 billion. Actual annual pre-tax net profit was NT\$3.088 billion, a budget-achieving rate of 872.32%.

- Profitability:

Return on assets 1.54%

Return on equity 3.91%

After-tax profit margin 1.58%

After-tax earnings per share NT\$0.40

3. Research and development

With the rise of the internet service era, China Airlines is committed to developing website functionality and optimizing ticket purchase systems, to create an ever higher-quality online experience and more convenient service. In 2017, China Airlines added England and Latin America web sites, and currently has established web sites for 15 countries and official web sites in 13 different languages. The company has also added services such as overweight luggage allowance purchases and online ticketing changes, and added 3D safety verification for credit cards to ensure the security of consumer online transactions and provide superior online service. In response to the "Swipe Generation" who are gradually becoming the main consumer force, China Airlines is using Facebook, IG and other social media platforms to provide interactive connection with passengers, make information transmission more timely and reach a broader audience. At the same time, the company plans to implement various improvements such as promoting Customs pre-clearance and e-AWB plans, to ensure that the company remains on course in moving toward low-carbon, energy-saving sustainable development.

The development of the company's information strategy focuses on 7 main areas: mobile, big data, artificial intelligence, cloud services, setting up an information base, information security, augmented reality and the Internet of Things. China Airlines will keep its finger on the pulse of the industry and use technology to better understand customer values, grasp profit-making trends, seek out opportunities for innovation, and enhance resource and risk management, to improve the company's operating competitiveness.

Looking to the future, the airline market will become more competitive, the progress of cross-Strait relations is unclear, and oil prices continue to climb. All this means the operating environment is made more and more difficult. China Airlines sincerely believes that holding firmly to its deep roots is the only road toward sustainable operations for an airline.

In 2018, China Airlines will continue to keep its promises to its stakeholders, constantly surpassing itself, and using the cohesive spirit of the airline to achieve a sustainable vision of "becoming Taiwan's premiere airline", and bringing its passengers the joy of both "familiarity" and "surprise". It will keep developing into

the most trusted friend of every air passenger and a family member that truly understands them, so that the plum blossoms of China Airlines will continue to thrive in every corner of the world.

Chairman: Ho, Nuan-Hsuan

President: Hsieh, Su-Chien

Vice President, Finance Div.: Chen, I-Chieh

Agenda Item #2

Description: Audit Committee's review report for the year 2017. To be reviewed by all parties.

Details: Please refer to page 7 of this handbook.

Audit Committee Report

The Board of Directors shall create and send (1) the 2017 consolidated financial statement and individual financial statement that have been jointly audited by Deloitte CPAs Chen-Hsiu Yang and Li-Chi Chen who released an official unqualified opinion by March 22, 2018 and (2) the 2017 business report and Deficit Compensation Statement, after having been found to have no discrepancies by this audit committee and, thereupon, issued a report in accordance with the items stipulated in Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

China Airlines

Convener of the audit committee: CHUNG, LO-MIN

22 March 2018

Agenda Item #3

Description: Proposal for distribution of 2017 employee compensation. To be reviewed by all parties.

Details:

1. In accordance with Article 25 of the Company's Articles of Incorporation, in the case of a profitable fiscal year, the Company is to allocate no less than 3% as employee compensation.
2. For 2017, the Company did not set aside pre-tax revenue of NT\$3.821 billion for employee compensation, but rather paid NT\$0.8 billion in cash compensation for its employees.
3. This item was approved during the 14th session of the 20th Meeting of the Board.

Agenda Item #4

Description: Status report on the Unsecured Ordinary Corporate Bonds of NT\$5.85 billion issued in 2017. To be reviewed by all parties.

Details:

1. In accordance with Article 246 of the Articles of the Company Act, a company may, by a resolution adopted by the Board of Directors, invite subscription for corporate bonds, provided that the reasons for the said action as well as other relevant matters shall be reported to the meeting of shareholders.
2. In order to support operations development, repay loans, and stabilize future mid- to long-term costs, China Airlines issued naked debentures in 2017 after it was decided to do so during the 10th convention of the 20th Board of Directors meeting. The total value of the debentures did not exceed NT\$10 billion and was issued in installments.
3. The 2017 naked debentures were issued in installments and raised a total of NT\$5.85 billion; the table below details the issuance of the debentures.

Item	First issuance in 2017	Second issuance in 2017
Date of issue	May 19, 2017	October 12, 2017
Issued total	NT\$2.35 billion	NT\$3.5 billion
Issued price	100% of face value	100% of face value
Period of issue	Tranche A: 3 years Tranche B: 7 years	Tranche A: 3 years Tranche B: 5 years
Coupon rate	Tranche A: Fixed interest rate of 1.20% per annum Tranche B: Fixed interest rate of 1.75% per annum	Tranche A: Fixed interest rate of 1.14% per annum Tranche B: Fixed interest rate of 1.45% per annum
Method of repayment	Tranche A, B: Principal paid in full upon maturity	Tranche A: Principal paid in full upon maturity Tranche B: 50% repaid in the fourth and fifth years
Planned use of funds	Fully carried out in 3Q 2017	Fully carried out in 4Q 2017

Agenda Item #5

Description: Status report on the domestic 6th Unsecured Convertible Bonds. To be reviewed by all parties.

Details:

1. In accordance with Article 246 of the Articles of the Company Act, a company may, by a resolution adopted by the Board of Directors, invite subscription for corporate bonds, provided that the reasons for the said action as well as other relevant matters shall be reported to the meeting of shareholders.
2. In order to support operations development, repay loans, and stabilize future mid- to long-term costs, China Airlines issued naked debentures in 2017 after it was decided in the 13th convention of the 20th Board of Directors meeting. The total value of the debentures did not exceed NT\$6 billion. The offering was completed on 26 January 2018 (aggregate principal amount NT\$6,000 million, issued at a premium of 0.2%, total issue amount NT\$6,012 million). The debenture was listed with the Taipei Exchange on 30 January 2018 (code: 26106, name: China Airlines company domestic 6th Unsecured Convertible Bonds).
3. Key terms and conditions of issuance:
 - (1) Total issue amount: The face value is NT\$100,000 per debenture. A total of 60,000 debentures were issued. The aggregate principal amount was NT\$6,000 million. The issue price was at a premium of 0.2%. The total issue amount is NT\$6,012 million.
 - (2) Issuing Period: 5 years from 30 January 2018 to 30 January 2023.
 - (3) Coupon rate: 0%
 - (4) Conversion price: The debenture's conversion price is calculated on the base day of 22 January 2018. The simple mean of the five-day closing prices of the company's common shares prior to the base date reaches NT\$12.59 per share. The conversion premium rate is 104.85%. The conversion price is NT\$13.2 per share.
 - (5) Conversion target: The company's common shares which will be fulfilled by issuing new shares.
 - (6) Conversion period: From 1 May 2018 (the next day of three months after the debenture's issue date) to 30 January 2023 (maturity day).
 - (7) Put option: From 30 January 2021 (three years after the debenture's issue date), the holders can sell debentures back to the company by requesting that the company to buy it back at its face value in cash.
4. The capital raised from the above issuance is planned to be used to repay bank loans in Q2 and Q3 2018. Once the execution of the funding utilization plan is completed, an estimated amount of NT\$27.916 million of interest expenditure will be saved in the year of 2018, and, from 2019, NT\$73.636 million of interest expenditure can be cut annually, effectively reducing the company's overall interest burden.

Agenda Item #6

Description: 744GE Aircraft Service Life Change Report. To be reviewed by all parties.

Details:

1. After considering the rationality of the actual use of four B747-400(GE) passenger aircraft and the future plans for its fleet, China Airlines is proposing to make adjustments to its estimates for the service life of the aircraft and major components thereof.
2. In accordance with Article 6 of "Regulations Governing the Preparation of Financial Reports by Securities Issuers", China Airlines asked its accountants to review its rationality analysis and offer suggestions. No major discrepancies were found.
3. From 1 January 2018, China Airlines changed the estimated service life of four of its B747-400(GE) passenger planes from 20 years to 16 to 17 years to ensure that the economic benefits of these fixed assets are in line with the estimated number of years of useful life.
4. This accounting adjustment in the estimation of service life will increase depreciation costs for 2018 by NT\$776 million.
5. This item was approved during the 13th session of the 20th Meeting of the Board.

Matters for Acknowledgement

Agenda Item #1 (Proposed by the Board of Directors)

Description: Acknowledgement of Business Report and Financial Statements for the year 2017

Details:

1. The Company's 2017 annual financial statements (including Balance Sheet, Consolidated Income Statement, and Changes in Equity and Cash Flow Statement) have been jointly audited by Deloitte CPAs Chen-Hsiu Yang and Li-Chi Chen and were approved and documented during the 15th session of the 20th Meeting of the Board.
2. For the 2017 Annual Business Report, please refer to pages 3-5 of this handbook; for the CPA Audit Report and the financial statements referred to above, please see pages 13-35 of this handbook.

Resolution:

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis for Opinion

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

Key Audit Matters

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

The key audit matters in the audit of the financial statement of the Company are stated below:

Deferred Income Tax Assets

Due to suffering tax losses in previous years, the Company was granted loss carryforwards which can be used against taxable income in a certain period. The Company recognized the loss carryforwards as deferred tax assets to the extent that the taxable profit in the future will be available against the loss carryforwards. As of December 31, 2017, the

Company recognized tax losses as deferred tax assets, in New Taiwan dollars (NT\$), in the amount of NT\$779,769 thousand. Refer to Notes 4, 5 and 27 in the accompanying financial statement for the related detailed information.

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

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

1. Acquiring the internal financial forecasts and the estimate of future taxable income, and reviewing the rationality of management's assumptions.
2. Acquiring information about the differences between the Company's financial position and its tax base, and assessing the rationality of reconciliations and the realization schedule of temporary differences to verify whether they are consistent with management's financial forecasts.

Impairment Loss of Noncurrent Assets Held for Sale

The board of directors of the Company resolved to dispose of several aircrafts. According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", impairment losses from the disposal of aircrafts were recognized as the differences between the expected transaction value and the carrying amount of the aircrafts, and then the aircrafts were reclassified as 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 financial statements for the related detailed information.

Due to the lack of an open trading market for aircrafts, the range of disposal prices for aircrafts varies significantly, and the expected transaction value of aircrafts reflecting the carrying amount of 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 by obtaining reference prices from authoritative publications recognized within the aviation industry, historical selling prices of similar types of aircrafts, and the suggested price proposed by a broker and observing the subsequent transactions.
2. Discussing the status of the transaction with the department accountable for disposing of aircrafts, and reviewing whether the correspondences and the latest quote were consistent with the market value estimated by management.

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\$125,442,997 thousand. Refer to Notes 4, 5 and 14 in the accompanying financial statements for the related detailed information.

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

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

1. Reviewing the certificates issued by the aircraft and engine manufacturers, the suggested operating cost of the aircraft manufacturer, and the historical experience of the maintenance department to assess the rationale used to determine the division amount by management.
2. Conducting an assessment on the rationality of useful life on the basis of fleet performance in the industry, historical experience of fleet operations, and documents that described the basis used by management to determine the useful life of its new fleet.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any

significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 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 financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

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

CHINA AIRLINES, LTD.
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	\$ 16,563,559	8	\$ 19,734,590	9
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	-	-	1,200	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 30)	293	-	51,403	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 30)	8,044,940	4	7,825,504	4
Notes and accounts - related parties (Notes 30 and 31)	510,588	-	439,509	-
Other receivables	532,974	-	833,754	1
Current tax assets (Notes 4 and 27)	24,096	-	21,652	-
Inventories, net (Notes 4 and 11)	8,610,958	4	8,338,980	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	426,553	-	185,100	-
Other current assets (Note 17)	<u>3,219,735</u>	<u>2</u>	<u>2,476,800</u>	<u>1</u>
Total current assets	<u>37,933,696</u>	<u>18</u>	<u>39,908,492</u>	<u>19</u>
NONCURRENT ASSETS				
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 30)	-	-	3,268	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 9 and 30)	64,177	-	120,200	-
Investments accounted for using the equity method (Notes 4 and 13)	11,551,369	5	10,051,325	5
Property, plant and equipment (Notes 4, 5, 14 and 32)	142,265,548	67	129,121,632	61
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	989,327	1	1,115,101	-
Deferred tax assets (Notes 4, 5 and 27)	4,974,941	2	5,749,714	3
Other noncurrent assets (Notes 17, 20, 30, 32 and 33)	<u>12,091,486</u>	<u>6</u>	<u>23,422,263</u>	<u>11</u>
Total noncurrent assets	<u>173,984,296</u>	<u>82</u>	<u>171,630,951</u>	<u>81</u>
TOTAL	<u>\$ 211,917,992</u>	<u>100</u>	<u>\$ 211,539,443</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	\$ 8,655	-	\$ -	-
Short-term bills payable (Note 18)	-	-	900,000	1
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 30)	77,639	-	20,854	-
Notes and accounts payable (Note 30)	297,952	-	638,876	-
Notes and accounts payable - related parties (Notes 30 and 31)	1,494,006	1	1,347,007	1
Other payables (Notes 21 and 26)	10,908,752	5	9,634,022	5
Current tax liabilities (Notes 4 and 27)	2	-	2	-
Provisions - current (Notes 4, 5 and 23)	406,457	-	-	-
Deferred revenue - current (Notes 4, 5 and 22)	14,048,025	7	13,404,227	6
Bonds payable and put option of convertible bonds - current portion (Notes 4, 19, 25, 30 and 31)	4,367,100	2	2,700,000	1
Loans and debts - current (Notes 18, 30 and 32)	18,814,633	9	31,816,140	15
Capital lease obligations - current portion (Notes 4, 20, 30 and 32)	1,580,000	1	1,254,000	1
Other current liabilities (Note 30)	<u>2,922,143</u>	<u>1</u>	<u>2,624,677</u>	<u>1</u>
Total current liabilities	<u>54,925,364</u>	<u>26</u>	<u>64,339,805</u>	<u>31</u>
NONCURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 30)	926	-	-	-
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 30)	6,994	-	2,775	-
Bonds payable - noncurrent (Notes 4, 19, 25, 30 and 31)	21,350,000	10	19,838,044	9
Loans and debts - noncurrent (Notes 18, 30 and 32)	61,907,978	29	52,833,478	25
Provisions - noncurrent (Notes 4, 5 and 23)	7,352,194	4	6,770,951	3
Deferred tax liabilities (Notes 4 and 27)	38,946	-	114,772	-
Capital lease obligations - noncurrent (Notes 4, 20, 30 and 32)	596,000	-	3,562,000	2
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,818,265	1	1,808,903	1
Accrued pension costs (Notes 4, 5 and 24)	6,158,744	3	6,217,346	3
Other noncurrent liabilities (Note 30)	<u>739,344</u>	<u>-</u>	<u>267,552</u>	<u>-</u>
Total noncurrent liabilities	<u>99,969,391</u>	<u>47</u>	<u>91,415,821</u>	<u>43</u>
Total liabilities	<u>154,894,755</u>	<u>73</u>	<u>155,755,626</u>	<u>74</u>
EQUITY (Notes 19 and 25)				
Share capital	<u>54,709,846</u>	<u>26</u>	<u>54,708,901</u>	<u>26</u>
Capital surplus	<u>799,999</u>	<u>-</u>	<u>799,932</u>	<u>-</u>
Retained earnings:				
Legal reserve	206,092	-	287,224	-
Special reserve	-	-	76,486	-
Unappropriated retained earnings (accumulated deficit)	<u>1,458,313</u>	<u>1</u>	<u>(157,618)</u>	<u>-</u>
Total retained earnings	<u>1,664,405</u>	<u>1</u>	<u>206,092</u>	<u>-</u>
Other equity	<u>(107,641)</u>	<u>-</u>	<u>112,264</u>	<u>-</u>
Treasury shares	<u>(43,372)</u>	<u>-</u>	<u>(43,372)</u>	<u>-</u>
Total equity	<u>57,023,237</u>	<u>27</u>	<u>55,783,817</u>	<u>26</u>
TOTAL	<u>\$ 211,917,992</u>	<u>100</u>	<u>\$ 211,539,443</u>	<u>100</u>

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

CHINA AIRLINES, LTD.

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

	2017		2016	
	Amount	%	Amount	%
REVENUE (Notes 4, 26 and 31)	\$139,815,211	100	\$127,524,864	100
COSTS (Notes 4, 8, 11, 24, 26 and 31)	<u>121,848,814</u>	<u>87</u>	<u>112,248,884</u>	<u>88</u>
GROSS PROFIT	17,966,397	13	15,275,980	12
OPERATING EXPENSES (Notes 4, 24, 26 and 31)	<u>10,608,283</u>	<u>8</u>	<u>10,800,273</u>	<u>9</u>
OPERATING PROFIT	<u>7,358,114</u>	<u>5</u>	<u>4,475,707</u>	<u>3</u>
NONOPERATING INCOME AND EXPENSES				
Other income (Notes 9 and 26)	360,980	-	593,451	1
Other gains and losses (Notes 8, 9, 12, 13, 14 and 26)	(4,980,870)	(3)	(2,410,921)	(2)
Finance cost (Notes 8, 26 and 31)	(1,277,807)	(1)	(1,221,588)	(1)
Share of the profit of associates and joint ventures (Note 13)	<u>1,627,786</u>	<u>1</u>	<u>100,602</u>	<u>-</u>
Total nonoperating income and expenses	<u>(4,269,911)</u>	<u>(3)</u>	<u>(2,938,456)</u>	<u>(2)</u>
PROFIT BEFORE INCOME TAX	3,088,203	2	1,537,251	1
INCOME TAX EXPENSE (Notes 4, 5 and 27)	<u>880,137</u>	<u>-</u>	<u>965,711</u>	<u>1</u>
NET INCOME	<u>2,208,066</u>	<u>2</u>	<u>571,540</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 24)	(645,219)	(1)	(589,382)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(211,952)	-	(234,797)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	109,687	-	100,195	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	(134,857)	-	(80,104)	-

(Continued)

CHINA AIRLINES, LTD.**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2017		2016	
	Amount	%	Amount	%
Cash flow hedges (Notes 4 and 25)	(116,580)	-	300,109	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(11,212)	-	(4,057)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 25 and 27)	<u>42,744</u>	<u>-</u>	<u>(37,401)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(967,389)</u>	<u>(1)</u>	<u>(545,437)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,240,677</u>	<u>1</u>	<u>\$ 26,103</u>	<u>-</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic	<u>\$ 0.40</u>		<u>\$ 0.10</u>	
Diluted	<u>\$ 0.39</u>		<u>\$ 0.10</u>	

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

(Concluded)

CHINA AIRLINES, LTD.

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

	Retained Earnings					Other Equity				Total 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	
BALANCE AT JANUARY 1, 2016	\$ 54,708,901	\$ 798,415	\$ -	\$ -	\$ 2,872,235	\$ 157,959	\$ 1,755	\$ (225,997)	\$ (43,372)	\$ 58,269,896
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)
Appropriation of 2015 earnings										
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-
Cash dividends - \$0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103
BALANCE AT DECEMBER 31, 2016	54,708,901	799,932	287,224	76,486	(157,618)	78,564	1,714	31,986	(43,372)	55,783,817
Compensation of deficit - capital surplus	-	-	(81,132)	(76,486)	157,618	-	-	-	-	-
Convertible bonds converted to common shares	945	131	-	-	-	-	-	-	-	1,076
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	(64)	-	-	-	-	-	-	-	(64)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(2,269)	-	-	-	-	(2,269)
Net income for the year ended December 31, 2017	-	-	-	-	2,208,066	-	-	-	-	2,208,066
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(747,484)	(113,550)	60	(106,415)	-	(967,389)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,460,582	(113,550)	60	(106,415)	-	1,240,677
BALANCE AT DECEMBER 31, 2017	<u>\$ 54,709,846</u>	<u>\$ 799,999</u>	<u>\$ 206,092</u>	<u>\$ -</u>	<u>\$ 1,458,313</u>	<u>\$ (34,986)</u>	<u>\$ 1,774</u>	<u>\$ (74,429)</u>	<u>\$ (43,372)</u>	<u>\$ 57,023,237</u>

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

CHINA AIRLINES, LTD.

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	\$ 3,088,203	\$ 1,537,251
Adjustments to reconcile pretax profit to net cash generated from (used in) operating activities:		
Bad-debt expenses	50,000	49,878
Depreciation expenses	17,375,194	16,588,758
Amortization expenses	247,725	138,554
Net loss on fair value change of financial assets and liabilities held for trading	33,385	29,909
Interest income	(176,329)	(188,006)
Dividend income	(9,564)	(59,099)
Share of profit of associates and joint ventures	(1,627,786)	(100,602)
Loss on disposal of financial assets carried at cost	-	346
Gain on disposal of property, plant and equipment	(5,839)	(80,617)
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
Loss on inventories and property, plant and equipment	642,423	207,019
Impairment loss recognized on property, plant and equipment	690,579	717,758
Net gain on foreign currency exchange	(343,681)	(10,773)
Loss on repurchase of bonds payable	-	41,943
Finance costs	1,277,807	1,221,588
Recognition of provisions	2,524,079	2,011,115
Amortization of unrealized gain on sale-leasebacks	(14,512)	(14,512)
Impairment loss recognized on financial assets carried at cost	56,023	-
Impairment loss recognized on noncurrent assets held for sale	3,571,301	347,868
Changes in operating assets and liabilities		
Financial assets held for trading	(32,185)	134,448
Financial liabilities held for trading	9,580	-
Derivative financial assets for hedging	-	13,096
Notes and accounts receivable	(271,309)	(785,159)
Accounts receivable - related parties	(71,079)	106,633
Other receivables	266,338	(61,401)
Inventories	(591,043)	(359,928)
Other current assets	(733,731)	(355,393)
Notes and accounts payable	(305,161)	(353,373)
Accounts payable - related parties	146,999	(668)
Other payables	2,073,621	(1,490,845)
Deferred revenue	653,161	1,398,073
Provisions	(1,138,140)	(366,218)
Other current liabilities	157,417	275,042
Accrued pension liabilities	(703,821)	(3,337,565)
Cash generated from operations	26,486,083	17,281,549
Interest received	192,138	178,640
Dividends received	639,454	893,380

(Continued)

CHINA AIRLINES, LTD.

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

	2017	2016
Interest paid	(1,245,421)	(1,121,355)
Income tax paid	<u>(31,203)</u>	<u>(44,606)</u>
Net cash generated from operating activities	<u>26,041,051</u>	<u>17,187,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of financial assets carried at cost	-	5,579
Acquisition of investments accounted for by the equity method	(1,240,837)	(100,000)
Payments for property, plant and equipment	(953,218)	(2,196,021)
Proceeds from disposal of property, plant and equipment	82,534	514,561
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	-
Increase in refundable deposits	(107,935)	(146,408)
Decrease in refundable deposits	180,381	167,312
Increase in prepayments for equipment	(24,215,469)	(24,724,783)
Refunds of prepayments for aircraft	-	5,693,791
Increase in computer software costs	(121,951)	(265,615)
Decrease in restricted assets	<u>-</u>	<u>206,714</u>
Net cash used in investing activities	<u>(24,867,173)</u>	<u>(20,460,585)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bills payable	(900,000)	900,000
Proceeds from issue of bonds payable	5,850,000	10,000,000
Exercise of put options of bonds payable	-	(994,705)
Repayments of bonds payable	(2,700,000)	(2,400,000)
Proceeds from long-term debts	30,380,000	34,499,000
Repayments of long-term debts and capital lease obligations	(36,947,007)	(35,052,725)
Proceeds of guarantee deposits received	233,015	98,282
Refunds of guarantee deposits received	(192,672)	(76,477)
Dividends paid to owners of the Company	<u>-</u>	<u>(2,508,525)</u>
Net cash (used in) generated from financing activities	<u>(4,276,664)</u>	<u>4,464,850</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(68,245)</u>	<u>35,288</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,171,031)	1,227,161
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>19,734,590</u>	<u>18,507,429</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 16,563,559</u>	<u>\$ 19,734,590</u>

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

(Concluded)

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)

ASSETS	2017		2016	
	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)	<u>6,001,538</u>	<u>3</u>	<u>4,638,502</u>	<u>2</u>
Total current assets	<u>47,411,834</u>	<u>21</u>	<u>47,338,201</u>	<u>21</u>
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)	<u>13,664,545</u>	<u>6</u>	<u>24,546,082</u>	<u>11</u>
Total noncurrent assets	<u>178,487,798</u>	<u>79</u>	<u>177,162,558</u>	<u>79</u>
TOTAL	<u>\$ 225,899,632</u>	<u>100</u>	<u>\$ 224,500,759</u>	<u>100</u>
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)	<u>3,801,073</u>	<u>2</u>	<u>3,455,062</u>	<u>2</u>
Total current liabilities	<u>60,289,113</u>	<u>27</u>	<u>68,605,724</u>	<u>30</u>
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)	<u>881,260</u>	<u>-</u>	<u>431,950</u>	<u>-</u>
Total noncurrent liabilities	<u>106,453,000</u>	<u>47</u>	<u>98,027,837</u>	<u>44</u>
Total liabilities	<u>166,742,113</u>	<u>74</u>	<u>166,633,561</u>	<u>74</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)				
Share capital	<u>54,709,846</u>	<u>24</u>	<u>54,708,901</u>	<u>25</u>
Capital surplus	<u>799,999</u>	<u>-</u>	<u>799,932</u>	<u>-</u>
Retained earnings:				
Legal reserve	206,092	-	287,224	-
Special reserve	-	-	76,486	-
Unappropriated retained earnings (accumulated deficit)	<u>1,458,313</u>	<u>1</u>	<u>(157,618)</u>	<u>-</u>
Total retained earnings	<u>1,664,405</u>	<u>1</u>	<u>206,092</u>	<u>-</u>
Other equity	<u>(107,641)</u>	<u>-</u>	<u>112,264</u>	<u>-</u>
Treasury shares	<u>(43,372)</u>	<u>-</u>	<u>(43,372)</u>	<u>-</u>
Total equity attributable to owners of the Company	57,023,237	25	55,783,817	25
NON-CONTROLLING INTERESTS (Note 26)	<u>2,134,282</u>	<u>1</u>	<u>2,083,381</u>	<u>1</u>
Total equity	<u>59,157,519</u>	<u>26</u>	<u>57,867,198</u>	<u>26</u>
TOTAL	<u>\$ 225,899,632</u>	<u>100</u>	<u>\$ 224,500,759</u>	<u>100</u>

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)	<u>134,149,374</u>	<u>86</u>	<u>123,073,201</u>	<u>87</u>
GROSS PROFIT	21,972,411	14	18,005,906	13
OPERATING EXPENSES (Notes 4, 25, 27 and 32)	<u>13,146,251</u>	<u>8</u>	<u>13,441,219</u>	<u>10</u>
OPERATING PROFIT	<u>8,826,160</u>	<u>6</u>	<u>4,564,687</u>	<u>3</u>
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)	<u>536,236</u>	<u>-</u>	<u>536,986</u>	<u>-</u>
Total nonoperating income and loss	<u>(5,302,197)</u>	<u>(4)</u>	<u>(2,684,836)</u>	<u>(2)</u>
PRETAX PROFIT	3,523,963	2	1,879,851	1
INCOME TAX EXPENSE (Notes 4, 5 and 28)	<u>1,033,171</u>	<u>-</u>	<u>1,168,911</u>	<u>1</u>
NET INCOME	<u>2,490,792</u>	<u>2</u>	<u>710,940</u>	<u>-</u>
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)	<u>173,691</u>	<u>-</u>	<u>159,935</u>	<u>-</u>
	<u>(890,301)</u>	<u>(1)</u>	<u>(847,675)</u>	<u>-</u>

(Continued)

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)	<u>45,419</u>	-	<u>(33,955)</u>	-
	<u>(222,875)</u>	-	<u>166,006</u>	-
Other comprehensive loss for the year, net of income tax	<u>(1,113,176)</u>	<u>(1)</u>	<u>(681,669)</u>	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,377,616</u>	<u>1</u>	<u>\$ 29,271</u>	-
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ 2,208,066	2	\$ 571,540	-
Non-controlling interests	<u>282,726</u>	-	<u>139,400</u>	-
	<u>\$ 2,490,792</u>	<u>2</u>	<u>\$ 710,940</u>	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ 1,240,677	1	\$ 26,103	-
Non-controlling interests	<u>136,939</u>	-	<u>3,168</u>	-
	<u>\$ 1,377,616</u>	<u>1</u>	<u>\$ 29,271</u>	-
EARNING PER SHARE (NEW TAIWAN DOLLARS; Note 29)				
Basic	<u>\$ 0.40</u>		<u>\$ 0.10</u>	
Diluted	<u>\$ 0.39</u>		<u>\$ 0.10</u>	

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	<u>(23,007)</u>	<u>22,045</u>
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	<u>(177,389)</u>	<u>(186,641)</u>
Net cash generated from operating activities	<u>28,547,018</u>	<u>17,636,372</u>
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	<u>82,906</u>	<u>230,338</u>
Net cash used in investing activities	<u>(25,792,340)</u>	<u>(21,021,616)</u>
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	<u>(48,387)</u>	<u>(8,084)</u>
Net cash (used in) generated from financing activities	<u>(4,669,431)</u>	<u>4,208,402</u>

(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	\$ <u>232,888</u>	\$ <u>(47,046)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,681,865)	776,112
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>24,267,197</u>	<u>23,491,085</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 22,585,332</u>	<u>\$ 24,267,197</u>

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

(Concluded)

Agenda Item #2 (Proposed by the Board of Directors)

Description: Acknowledgement of proposal for distribution of 2017 profits.

Details:

1. In accordance with Article 228 of the Company Act and Article 25 of the Company's Articles of Incorporation.
2. Net income after tax for 2017 was NT\$2,208,066,185. After reimbursing NT\$749,754,345 accumulated loss, and allocating NT\$145,831,184 and NT\$118,810,236 to 10% legal reserve and special reserve respectively, the distributable surplus earnings reached NT\$1,193,670,420. The company proposes to pay NT\$1,193,670,420 in cash dividend, representing NT\$0.2181820086 per share. The payment of each shareholder's cash dividend is to be in full New Taiwan Dollars while the fractional amounts will be added to the company's other income.
3. Refer to the Distribution of 2017 earnings table on page 37 of this handbook.
4. This plan was approved in the 15th convention of the 20th Board of Directors meeting. After the resolution is adopted during this Shareholders' Meeting, the Board of Directors will be authorized to set the base date and the ex-dividend date for cash dividend distribution.

Resolution:

China Airlines Ltd.
Distribution of 2017 earnings

Unit: NT\$

Items	Total
Unappropriated retained earnings (Beginning Balance)	\$ 0
Subtract: Remeasurement of defined benefit plans	(535,531,749)
Subtract: Change in retained earnings from investments in associates and joint ventures accounted for by using equity method	<u>(214,222,596)</u>
Add: 2017 Net income after tax	2,208,066,185
Subtract: 10% Legal Reserve	(145,831,184)
Subtract: Special Reserve	<u>(118,810,236)</u>
Retained Earnings Available for Distribution as of December 31, 2017	1,193,670,420
Distribution Item: Cash Dividends to Common Shareholders (\$0.2181820086 per share)	<u>(1,193,670,420)</u>
Unappropriated retained earnings (Ending Balance)	<u><u>\$ 0</u></u>

Chairman: HO, NUAN-HSUAN

Manager: HSIEH, SU-CHIEN

Accounting Supervisor: CHEN, I-CHIEH

Matters for Election

Agenda Item #1 (Proposed by the Board of Directors)

Description: Proposal to elect the 21st Directors

Details:

1. The term of office for the 21st Board of Directors has expired. During the 15th session of the 20th Meeting of the Board, it was resolved that 13 directors (including three independent directors) would be elected during the Annual Shareholders' Meeting. The term of office of the directors is to be three years, from 27 June 2018 to 26 June 2021.
2. China Airlines has adopted the nomination system stipulated under Article 192-1 of the Company Law in the electing of its directors. Shareholders are to elect directors from the nominees for directorship list. The qualifications, i.e., work and study experience and other important information, of the individuals on a list of 12 nominees for directorship (including three independent directors) was reviewed and approved during the 16th session of the 20th Meeting of the Board. Please refer to pages 39-41 of this handbook.

Election Results:

China Airlines Ltd.

Table of Basic Information of Nominees for Directorship for 21st Board of Directors

Item	A/C Number	Name	Shares	Major Education and Work Experience
1	000001	China Aviation Development Foundation Representative: HO, NUAN-HSUAN	1,867,341,935	Major Work Experience: Chairman, China Airlines Ltd. ∙ Chairman, Taoyuan Metro Corporation ∙ Member, The Coordination Council for North American Affairs, Executive Yuan ∙ Administrative Deputy Minister, Ministry of Transportation and Communications ∙ Chairman, Chunghwa Post Co., Ltd. ∙ Director-General, Taiwan Railway Administration, MOTC ∙ Director-General, Bureau of High Speed Rail, MOTC ∙ Director-General, Taiwan Area National Freeway Bureau, MOTC Major Education: Ph.D. in Industrial Engineering and Management, Chung Hua University
2	000001	China Aviation Development Foundation Representative: HSIEH, SU-CHIEN	1,867,341,935	Major Work Experience: President, China Airlines Ltd ∙ Chairman, Taiwan Air Cargo Terminal Ltd. ∙ General Manager , Australia Branch Office, China Airlines ∙ Chairman, Abacus Distribution Systems Taiwan Ltd ∙ Senior Vice President of Marketing, China Airlines ∙ Vice President, Marketing & Service Division , China Airlines ∙ Director of Taiwan Region and General Manager of Taipei Branch Office, China Airlines ∙ General Manager, Kaohsiung Branch Office, China Airlines ∙ General Manager, Indonesia Branch Office, China Airlines Major Education: Department of Economics , Soochow University, Taiwan
3	000001	China Aviation Development Foundation Representative: CHEN, HAN-MING	1,867,341,935	Major Work Experience: Chairman, Prime Development Co., Ltd. ∙ Director, Hua-Da Venture Capital Ltd. ∙ Director, Yuan-Chin Development Ltd. Major Education: MSc, Birmingham City University, UK
4	000001	China Aviation Development Foundation Representative: TING, KWANG-HUNG	1,867,341,935	Major Work Experience: Chairman, Central Trading & Development Corp. ∙ Chairman, Hiep Phuoc Power Co., Ltd. ∙ Chairman, Macro Technologies Inc. (Vietnam) Ltd. ∙ Chairman, Phu My Hung Asia Holdings Corporation ∙ Board Member, Phu My Hung Development Corporation ∙ Vice Chairman, TVBS Media Inc. ∙ Visiting Professor, College of Management of National Taiwan Normal University Major Education: BA in Finance, Boston University, U.S.A.

Item	A/C Number	Name	Shares	Major Education and Work Experience
5	000001	China Aviation Development Foundation Representative: CHEN, CHIH-YUAN	1,867,341,935	Major Work Experience: Chairman, Eyon Holding Group ∙ Vice Chairman, Taian Insurance Co., Ltd. ∙ Chairman, Epistar Corp. ∙ Vice Chairman, Taiwan Air Cargo Terminal Ltd. ∙ Chairman, Wan Hai International Pte. Ltd. ∙ Director, Wan Hai Lines Ltd. Major Education: MBA, New York University, USA
6	000001	China Aviation Development Foundation Representative: KO, SUN-DA	1,867,341,935	Major Work Experience: Chairman, K Hotels ∙ Chairman, Kodak Trading Company ∙ Government Adviser, Executive Yuan ∙ Government Adviser, Keelung City Government ∙ Deputy Minister, Keelung City Sister Cities Promotion Association ∙ Board Director, Keelung City Police Association ∙ Adjunct Instructor, National Open University ∙ Adjunct Instructor, Open Junior College ∙ Commissioner, Keelung Family Support Center Major Education: MBA, Keio University, Japan
7	000001	China Aviation Development Foundation Representative: WEI, YUNG-YEH	1,867,341,935	Major Work Experience: Director, China Airlines Employees Union ∙ Team Leader, LINE MAINTENANCE DEPT., Maintenance Div., China Airlines Ltd. Major Education: Jet machinery repair group, Air Force Mechanical School
8	348715	National Development Fund, Executive Yuan Representative: LIN, SU-MING	519,750,519	Major Work Experience: Professor, Department & Graduate Institute of Accounting, National Taiwan University ∙ Public Director, Taipei Exchange, R.O.C. ∙ Independent Director, Nan Shan Life Insurance Co., Ltd. ∙ Director, iPASS Corp. ∙ Member, Tax Reform Commission, Executive Yuan ∙ Member, Administration Appeals Commission, Taipei City Government ∙ Deputy Dean, College of Management, National Taiwan University ∙ Chairman, Department and Graduate Institute of Accounting, National Taiwan University Major Education: Ph.D. in Accounting, Arizona State University, U.S.A.
9	348715	National Development Fund, Executive Yuan Representative: WANG, SHIH-SAI	519,750,519	Major Work Experience: Director, Tourism Bureau of Tainan City Government ∙ Chairperson, Research, Development and Evaluation Commission, Tainan City Government ∙ Chief Executive Officer, Ketagalan Foundation Formosa Taiwan ∙ Commissioner, Mongolian & Tibetan Affairs Commission ∙ Director, Department of Information, Kaohsiung City Government ∙ Chief Executive Officer, Judicial Reform Foundation ∙ Secretary General, Taiwan Association for Human Rights Major Education: MBA in International Development Policy, Duke University, U.S.A.

China Airlines Ltd.
Table of Basic Information of Nominees for Independent
Directorship for 21st Board of Directors

Item	Name	ID Number	Shares	Education and Work Experience
1	CHUNG, LO-MIN	A10272****	0	Major Work Experience: Chairman, Audit Committee, China Airlines Ltd., Chairman, China Steel Chemical Corp., Exec. VP, China Steel Corp., VP of Finance, China Steel Corp. Education: MBA, Arizona State University, USA
2	CHANG, GEN-SEN H.	A21039****	0	Major Work Experience: Member of Environmental Protection Agency Foundation Committee, Independent Director, K Laser, Advisor to Legislator, Legislative Yuan, Adjunct Associate Professor, Chinese Culture University, Controller, Amagic Holographics, Inc., Associated CPA, Wu, Liang, and Huang CPAs Staff Accountant, AAA (Auto Club of S. Ca.) Education: MBA, University of California, Irvine, CA, USA
3	SHEN, HUI-YA	K22020****	0	Major Work Experience: Consultant, Public Service Pension Fund Management Board, Ministry of Civil Service, Examination Yuan, Lawyer, Lianyang Law Office, Independent Director, First Financial Holding Co., Ltd., Independent Director, Taiwan Fertilizer Co., Ltd., Independent Director, Formosa Advanced Technologies Co., Ltd., Consultant to the Formosa Plastics Group, Siliconware Precision Industries Co., Ltd., Taiwan Land Development Corp., and DIVA Laboratories. Ltd., Adjunct Lecturer, Central Police University, Supervisor, Radio Taiwan International, Committee Member, Securities and Futures Investors Protection Center, Lecturer, Departments of Law, Trade and Finance, Fu Jen Catholic University, Lecturer, Department of International Business Administration, Advisor, Taiwan Securities Association, Advisor, Public Service Pension Fund Supervisory Committee, Ministry of Civil Service, Examination Yuan Education: Master of Law, National Chung Hsing University

Other Item

(Proposed by the Board of Directors)

Description: Proposal to release non-compete restrictions on the 21st Directors. To be determined by all parties.

Details:

1. In accordance with Article 209 of the Company Act, when a Director's actions for himself or others fall within the Company's business scope, he shall explain the importance of said actions to the Board of Shareholders and obtain its approval.
2. Due to requirements of service of directors (including juristic persons and designated representatives) of the 21st Board of Directors or because they have invested in or operate companies with business scopes that are the same as or similar to that of China Airlines, but which do not adversely impact the interests of China Airlines, a proposal that the non-compete restrictions on the 21st Directors be released is to be submitted at the Shareholder's Meeting. So that shareholders can exercise voting rights electronically, details concerning the relevant interests of nominees for directorship have been included in pages 43-44 of this handbook, so that after the director elections are held during the Annual Shareholder's Meeting, the non-compete restrictions can be lifted on those that have been elected.
3. This item was approved during the 16th session of the 20th Meeting of the Board.

Resolution:

China Airlines Ltd.

Details of Positions Concurrently Held by 21st Directors

Name & Title	Positions Held
China Aviation Development Foundation Representative: HO, NUAN-HSUAN	Chairman, CAL Park Co., Ltd. Chairman, CAL-Asia Investment Inc. Chairman, CAL-Dynasty International, Inc. Chairman, CAL Hotel Co., Ltd. Chairman, NORDAM Asia Ltd. Vice Chairman, China Pacific Catering Services Vice Chairman, China Pacific Catering Services
China Aviation Development Foundation Representative: HSIEH, SU-CHIEN	Chairman, Mandarin Airlines, Ltd. Director, President, CAL Park Co., Ltd. Director, CAL Hotel Co., Ltd. Director, CAL-Asia Investment Inc. Director, CAL-Dynasty International, Inc. Director, Dynasty Properties Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd.
China Aviation Development Foundation Representative: CHEN, CHIH-YUAN	Chairman, Yongyi Co., Ltd. Chairman, Eyon Holding Group Chairman, Yide Optoelectronics Technology Co., Ltd. Chairman, Yi Yang Technology Co., Ltd. Chairman, Sunshine Shihlin Dev Co., Ltd. Vice Chairman, Taian Insurance Co., Ltd. Vice Chairman, Wan Hai Lines (Singapore) Pte Ltd. Vice Chairman, Taiwan Air Cargo Terminal Ltd. Director, Epistar Corp. Director, Nan Ya Photonics Incorporation Board Director, ShihLin Paper Corporation Director, Fontainebleau Corporation Director, Yichao Industrial Co., Ltd. Director, Yixiang Industrial Co., Ltd. Director, Ravenel Co., Ltd. Director, Xinfeng Co., Ltd.

Name & Title	Positions Held
China Aviation Development Foundation Representative: KO, SUN-DA	Chairman, Kodak Hotels
National Development Fund, Executive Yuan Representative: LIN, SU-MING	Director, iPASS Corp. Independent Director, Nan Shan Life Insurance Co., Ltd. Independent Director, Ruentex Industries Ltd.
corporate name	Positions Held
China Aviation Development Foundation	Chairman, Corporate Director, Taiwan High Speed Rail Corporation
National Development Fund, Executive Yuan	Corporate Director, Taiwan Aerospace Corporation Corporate Director, Aerovision Avionics, Inc. Corporate Director, Taiwan High Speed Rail Corporation Corporate Director, Kaohsiung Rapid Transit Corporation Corporate Director, China Engine Corporation Corporate Director, National Aerospace Fasteners Corporation

Questions and Motions

Appendices

Appendix 1

China Airlines Ltd. Rules of Procedure for Shareholders' Meetings

Formulated and implemented after approval by the 3rd Extraordinary Shareholders' Meeting
on December 12, 1991

Amended and approved by the Shareholders' Meeting on June 29, 2010

Amended and approved by the Shareholders' Meeting on June 15, 2012

Amended and approved by the Shareholders' Meeting on June 26, 2015

Article 1

These Rules of Procedure for Shareholders' Meetings have been drawn up in accordance with the Company Act and all other relevant laws and regulations. Any matters not stipulated in these Rules shall be conducted in accordance with the aforementioned laws.

Article 2

The rules for procedures for the Company's Shareholders' Meetings, except as otherwise provided by law, regulations, or the Articles of Incorporation, shall be as provided in these Rules.

Article 3

As stipulated in these Rules, "shareholder" refers to the shareholder himself/herself or a designated representative delegated to attend in his/her stead.

Article 4

A shareholder may appoint a proxy to attend a shareholder meeting by providing the proxy form issued by the Company in accordance with the Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies, promulgated by the competent authorities, which clearly states the scope of the proxy's authorization. The shareholder shall deliver the proxy form to the Company at least 5 days before the date of the Shareholders' Meeting. When duplicate proxy forms are delivered, the one received earliest shall prevail unless a declaration is made to cancel the previous proxy appointment. If a shareholder appoints a proxy, should the proxy not provide the proxy form, the total number of shares and voting rights represented shall be disregarded.

When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting.

After a proxy form has been delivered to the Company, if the shareholder intends to attend the meeting in person or to exercise voting rights by correspondence or electronically, a

written notice of proxy cancellation shall be submitted to the Company no later than 2 business days prior to the meeting date. If the cancellation notice is submitted after that time, votes cast at the meeting by the proxy shall prevail.

Article 5

Attendance and voting at Shareholders' Meetings shall be calculated based on numbers of shares. The number of shares in attendance and voting rights shall be calculated according to the shares indicated by the sign-in cards handed in and proxy forms plus the number of shares whose voting rights are exercised by correspondence or electronically.

Article 6

The chair of the Shareholders' Meeting shall be selected in accordance with Article 208, Paragraph 3 of the Company Act and Article 14 of the Company's Articles of Incorporation.

The Company may appoint its attorneys, certified public accountants, or related persons retained by it to attend a Shareholders' Meeting in a non-voting capacity.

Article 7

If a Shareholders' Meeting is convened by the Board of Directors, the meeting agenda shall be set by the Board of Directors. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the Shareholders' Meeting.

The provisions of the preceding paragraph apply mutatis mutandis to a Shareholders' Meeting convened by a party with the power to convene that is not the Board of Directors.

After the Shareholders' Meeting agenda is set by the Board of Directors or other party with the power to convene, the agenda shall be distributed to shareholders in attendance or their proxies. The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda (including extraordinary motions), except by a resolution of the Shareholders' Meeting.

After the meeting is adjourned, the shareholders may not designate another person as chair and continue the meeting in the original location or at a different location.

Article 8

The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements for a combined total of no more than 1 hour is made. If a quorum is not met after two postponements, but the attending shareholders represent one third or more of the total number of issued shares, the situation is to be handled in accordance with Article 175 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolutions made previously for a vote by the Shareholders' Meeting.

Article 9

In addition to discussions and votes on issues as outlined in the agenda handbook, shareholders in attendance may also raise extraordinary motions as stipulated in the Company Act. After the chair receives approval from other shareholders, the chair shall put the issue up for discussion and a vote.

Election or dismissal of directors, amendments to the Articles of Incorporation, the dissolution, merger, or demerger, or any matter under Article 185, Paragraph 1 of the Company Act, Articles 26-1 and 43-6 of the Securities and Exchange Act, or Articles 56-1 and 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out in the notice of the reasons for convening the Shareholders' Meeting. None of the above matters may be raised by an extraordinary motion.

Article 10

When an attending shareholder wishes to speak regarding a proposal up for discussion, he or she must specify on a speaker's slip the subject of the speech, his/her shareholder account number and account name. The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. This also applies in the case of extraordinary motions.

After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.

Article 11

When a juristic person shareholder appoints two or more representatives to attend a Shareholders' Meeting, only one of the representatives so appointed may speak on the same proposal. Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes.

Article 12

If the speech of any shareholder violates the above Article or exceeds the scope of the agenda item, the chair may terminate the speech.

When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor. The chair shall stop any violations. The chair shall direct the proctors (or security personnel) to help maintain order at the meeting place.

Proctors (or security personnel) assigned to help maintain order at the meeting place shall wear an identification card or armband bearing the word "Proctor."

Any shareholders who use public address equipment different from that supplied at the premises may be prevented from speaking by the chair.

In the event that a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct proctors or security personnel to escort the shareholder from the meeting.

Article 13

The chair shall announce the end of discussion on a proposed resolution and proceed with voting when he/she feels that the discussion time will affect the smooth proceeding of the meeting or that there has been sufficient discussion and that there is no need for further speeches.

When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected and no further voting shall be required.

Article 14

The number of voting rights required to pass a resolution shall be determined as outlined in the Company Act based on the characteristics of said proposal, but if the Company's Articles of Incorporation specify a higher standard, then the Articles of Incorporation shall be followed

Article 15

Except as otherwise provided in the Company Act, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders (if the Articles of Incorporation require a higher standard, then the higher standard shall apply). In the resolution, if the chair of the meeting inquires and receives no objection, the motion is deemed passed, with equivalent force as a resolution by vote. When a shareholder is an interested party in relation to an agenda item and there is the likelihood that such a relationship would prejudice the interests of the Company that shareholder's voting rights may not count towards the total but this does not apply in the selection of directors. When one person is concurrently appointed as proxy by two or more shareholders, the voting rights represented by that proxy may not exceed 3% of the voting rights represented by the total number of issued shares. If that percentage is exceeded, the voting rights in excess of that percentage shall not be included in the calculation. When a shareholder is an interested party in relation to an agenda item and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder, but selection of a director is not thusly restricted.

The number of shares for which voting rights may not be exercised under the preceding paragraph shall not be calculated as part of the voting rights represented by attending shareholders.

With the exception of a trust enterprise or a shareholder services agent approved by the competent securities authority, when one person is concurrently appointed as proxy by two or more shareholders, should the voting rights represented by that proxy exceed 3% of the voting rights represented by the total number of issued shares the voting rights in excess of that percentage shall not be included in the calculation.

Article 16

Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Company. When the chair appoints shareholders from the shareholder meeting to perform a certain task and the appointee is unable to perform said task, the chair shall appoint a different

shareholder.

Article 17

When a meeting is in progress, the chair may announce a break at his or her discretion. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed. When the chair adjourns the meeting, the meeting is considered concluded.

Article 18

Matters relating to the resolutions of a Shareholders' Meeting shall be recorded in the meeting minutes. The meeting minutes shall be signed or affixed with a seal by the chair of the meeting and shall be retained for the duration of the existence of the Company.

The Company, beginning from the time it accepts shareholder attendance registrations, shall make an uninterrupted audio or video recording of the registration procedure, the proceedings of the Shareholders' Meeting, and the voting and vote counting procedures. The recorded audio and/or video materials, sign-in cards, attendance book, and proxy forms shall be retained for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the aforementioned materials shall be retained until the conclusion of the litigation.

Article 19

These Rules and any amendments hereto, shall be implemented after adoption by Shareholders' Meetings.

Appendix 2

CHINA AIRLINES LTD. ARTICLES OF INCORPORATION

This Article was created on August 15, 1959
Amended and approved by the Shareholders' Meeting undergone 69 amendments on June 18, 2014
Amended and approved by the Shareholders' Meeting undergone 70 amendments on June 26, 2015
Amended and approved by the Shareholders' Meeting undergone 71 amendments on June 24, 2016

Chapter I General Provisions

Article 1

The Company shall be organized in accordance with the provisions of the Company Act relating to companies limited by shares, and shall be named “中華航空股份有限公司”. Its English name shall be “CHINA AIRLINES LTD.”.

Article 2

The Company shall conduct the following businesses:

1. G501011 Civil Aviation Transport
2. G501020 Civil Aviation Agency
3. G502011 Aviation
4. G602011 Airport Ground Services
5. G605011 Sky Catering
6. G801010 Warehousing & Storage
7. F114070 Aircraft & Parts Wholesaling
8. F214070 Aircraft & Parts Retailing
9. I301010 Software Design Services
10. I301020 Data Processing Services
11. I301030 Digital Information Supply Services
12. J201051 Civilian Aviation Personnel Training
13. JA01010 Automotive Repair & Maintenance
14. JA02990 Other Repair Shops
15. ZZ99999 All businesses that are not prohibited or restricted by law, except those subject to special approval.

Article 2-1

The Company may, in accordance with its business requirements, act externally as a guarantor and make re-investments. Where the Company is a limited liability shareholder of another company, the total amount of its re-investment is not subject to the restriction on the re-investment amount as prescribed by Article 13 of the Company Act.

Article 2-2

(Deleted)

Article 3

The Company's head office is located in Taoyuan City (Taiwan, R.O.C.), and branch offices or sales offices may be set up inside and outside of the country when necessary upon a resolution of the Board of Directors.

Article 4

(Deleted)

Chapter II Shares**Article 5**

The aggregate capital of the Company shall be Seventy Billion New Taiwan Dollars (NT\$70,000,000,000), divided into Seven Billion (7,000,000,000) common shares at Ten New Taiwan Dollars (NT\$10) per share. The un-issued shares may be issued at several times by the Board of Directors in accordance with the Company's business requirements.

Article 6

The share certificates of the Company shall be registered, signed by or affixed with the seals of at least three directors, and issued upon being certified by the competent authority or a certification organization approved by it.

When there is a new issue of shares, the Company may print a consolidated share certificate representing the total number of new shares or be exempted from printing share certificates for the said issue.

With respect to the new shares issued in accordance with the provision of the preceding paragraph, the consolidated printed share certificate shall be placed under the custody of, and the recordation of the issue for shares exempted from printing share certificate shall be made by the centralized securities custody institution, or the new-issued shares may be consolidated with other already-issued shares into larger-denomination share certificates in accordance with the request of the centralized securities custody institution.

Article 7

(Deleted)

Article 8

The Company's stock matters shall be governed by the relevant regulations of the competent authority.

Article 9

Registration of a share assignment shall not be made within sixty (60) days prior to a

convening date of a regular shareholders' meeting, or within thirty (30) days prior to a convening date of a special shareholders' meeting, or within five (5) days prior to the record date fixed by the Company for distribution of dividends, bonuses, or other benefits.

Chapter III Shareholders' Meetings

Article 10

The Company's shareholders' meetings are of two kinds: regular shareholders' meetings and special shareholders' meetings. A regular shareholders' meeting shall be convened once a year within six (6) months after the close of the fiscal year. A special shareholders' meeting shall be convened when necessary in accordance with the relevant laws and decrees.

Article 11

Unless otherwise provided by the Company Act, a resolution of a shareholders' meeting shall be adopted by majority vote of the shareholders present at a meeting, representing a majority of the total number of voting shares.

Article 12

A shareholder of the Company shall be entitled to one share one vote, unless otherwise restricted by laws.

Article 13

If a shareholder is unable to attend a shareholders' meeting for causes, he shall appoint a proxy to attend on his behalf by executing a power of attorney printed by the Company specifying the scope of the power authorized to the proxy.

Other than a trust enterprise or a stock agency approved by the competent authority, the voting right represented by a proxy appointed concurrently by two or more shareholders shall not exceed three percent (3%) of the total number of voting shares of all outstanding shares; any voting right in excess thereof shall not be counted.

Unless otherwise provided by the Company Act, the rules for appointing proxies to attend a shareholders' meeting shall be prescribed in accordance with the "Rules Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" promulgated by the competent authority.

Article 14

Where a shareholders' meeting is convened by the Board of Directors, the meeting shall be presided by the Chairman of the Board of Directors. When the Chairman is on leave or absent, or is unable to exercise his power and authority for causes, he shall designate a director to represent him; where he has not designated a representative, directors shall elect a representative from among themselves to act as the chairman of the meeting. Where a shareholders' meeting is convened by any person with convening power other than the Board of Directors, such person shall be the chairman of the meeting. Where there are two or more persons having convening powers, one shall be elected from among themselves to act as the chairman of the meeting.

Article 15

Resolutions adopted at a shareholders' meeting shall be recorded in meeting minutes signed by or affixed with the seal of the chairman of the meeting, and the meeting minutes shall be kept perpetually throughout the existence of the Company.

The attendance register of shareholders attending the meeting and the proxies shall be safe kept for at least one year. However, in the event a shareholder has initiated litigation in accordance with Article 189 of the Company Act, they shall be safe kept until the conclusion of the litigation.

Chapter IV Directors and Managers

Article 16

The Company shall have eleven to thirteen directors, all of whom shall be elected at a shareholders' meeting from among persons having legal capacity.

Travel expenses and remuneration for the directors shall be prescribed by the Board of Directors in reference to the standards adopted by enterprises in the relevant industry and listed companies.

Article 16-1

The directors of the Company provided in the preceding article shall include three independent directors as from the 19th term of office of the directors.

The election of the directors of the Company shall be held in accordance with the candidate nomination system. The election of directors shall be held in accordance with the Company Act and other applicable laws and regulations. Independent directors and other directors shall be elected at the same time but in separately calculated numbers elect, and candidates to whom the ballots cast represent a prevailing number of votes shall be elected as independent directors and other directors.

The professional qualifications, restrictions on shareholdings and concurrent positions held, assessment of independence, method of nomination and election, exercise of power, and other matters for compliance with respect to independent directors shall be governed by and construed in accordance with the Securities and Exchange Act and the provisions of relevant laws and decrees.

Article 16-2

The audit committee of the Company is organized by all independent directors in accordance with Article 14-4 of the Securities and Exchange Act. Governing powers exercised by the audit committee and its members, and related businesses thereof, shall be governed by and construed in accordance with the Securities and Exchange Act and the provisions of the relevant laws and decrees.

Article 17

The term of office of the directors is three years, and the directors may be eligible for re-election. The total number of shares held by all the directors shall be governed by the provisions of the "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies".

Article 18

The directors shall organize a Board of Directors to exercise the power and authority of the directors, and the Chairman of the Board of Directors shall be elected from among the directors by a majority vote at a meeting attended by at least two-thirds of the directors, and the Chairman shall represent the Company externally.

The Board of Directors shall be authorized to prescribe the remuneration for the Chairman according to the extent of the Chairman's participation in the operation of the Company, in reference to the regulations relating to remuneration for managers of the Company.

Article 19

A board meeting shall be convened by the Chairman; provided, however, that the first board meeting for each term shall be convened by the director who obtains and represents the most votes.

A board meeting shall be presided over by the Chairman of the Board of Directors. When the Chairman is on leave or absent, or is unable to exercise his power and authority for causes, he shall designate a director to represent him; where he has not designated a representative, the directors shall elect a representative from among themselves to represent him.

Article 19-1

If a board meeting is held in the form of a video conference, the directors who participate in the video conference shall be deemed to have attended the meeting in person.

If a director is unable to attend a board meeting for causes, he may issue a proxy specifying therein the purpose for convening the meeting and the scope of authorization to appoint another director to represent him at the meeting; provided, however, that a representative shall accept only one person's appointment.

Article 20

Unless otherwise provided for by the Company Act, a resolution of the Board of Directors shall be adopted by a majority vote of the directors present at a board meeting attended by a majority of the directors.

Article 21

(Deleted)

Article 22

The Company shall have one president and several senior vice presidents whose appointment, dismissal and remuneration shall be governed in accordance with Article 29 of the Company Act.

Article 23

The Company may, in accordance with its business requirements, invite several consultants, senior consultants and special consultants, who shall be appointed by the Chairman.

Chapter V Accounting

Article 24

After the close of each fiscal year, the Board of Directors shall prepare the following statements and reports, and submit them to the regular shareholders' meeting for recognition:

1. Operation/Business report
2. Financial statements
3. Proposal for distribution of profit or appropriation to cover loss

Article 25

In the case of a profitable fiscal year, the Company shall set aside no less than 3% to employee compensation. However, in the event of accumulated deficits, the profits shall be reserved in advance to offset the deficits.

The above compensation shall be distributed as stock or cash following a Board of Directors majority approval in which at least two-thirds of board members are present. If passed, the resolution shall be reported during a Shareholders' Meeting.

In the case of a profitable fiscal year, the Company shall pay taxes in accordance with the law, make up accumulated deficits, and then allot 10% to the statutory surplus reserve. In accordance with regulations, the remaining balance shall then be appropriated for provisions and rotating special reserves. If there is still surplus and/or accumulated undistributed earnings, the Board of Directors shall submit an allocation proposal at a Shareholders' Meeting. Upon approval, the proposal shall then take effect and dividends shall be distributed to all shareholders:

1. Not less than 50% thereof shall be distributed as dividend and bonus to shareholders. However, if the distributable balance from the current year's pre-tax profit after making the deductions in accordance with the aforesaid computation method is not sufficient, the Company may apply the accumulative retained earnings-unappropriated to cover the shortfall.
2. When the Company does not suffer any loss, it may, with due consideration to financial and/or commercial and/or operational factor(s), appropriate all or a part of the reserve to issue new shares or distribute cash to shareholders in accordance with the laws and decrees, or the regulations of the competent authority.
3. Distribution of the aforesaid dividend and bonus may be made in the form of shares or cash; provided, however, that the cash dividend shall not be less than 30% of the total dividends.

Chapter VI Supplemental Provisions

Article 26

The present Articles of Incorporation were announced on August 15, 1959, and the seventy first (71st) amendment was made on June 24, 2016. Matters not prescribed under these Articles of Incorporation shall be governed by and construed in accordance with the provisions of the relevant laws and decrees.

Appendix 3

China Airlines Ltd.

Procedures Governing the Election of Directors

Amended and implemented after approval by the Shareholders' Meeting on June 26, 2015

Article 1: Except as otherwise provided by law and regulation or by the Company's Articles of Incorporation, elections of directors shall be conducted in accordance with these Procedures.

Article 2: Directors shall be elected in the Shareholders' Meeting.

Article 3: Elections of the Company directors shall be conducted in accordance with the candidate nomination system and procedures set out in Article 192-1 of the Company Act. The Company shall review the qualifications, educational background, and work experience, and the existence of any other matters set forth in Article 30 of the Company Act with respect to nominee directors, and may not arbitrarily add requirements of other credentials. It shall further provide the results of the review to shareholders for their reference, so that qualified directors will be elected.

The qualifications and elections for the independent directors of the Company shall comply with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies.

When the number of directors falls below five due to the dismissal of a director or more for any reason, the Company shall hold a by-election to fill the vacancy at its next Shareholders' Meeting. When the number of directors falls short by one third of the total number prescribed in the Company's Articles of Incorporation, the Company shall call a Special Shareholders' Meeting within 60 days from the date of occurrence to hold a by-election to fill the vacancies.

When the number of independent directors falls below that required under the proviso of Article 14-2, Paragraph 1 of the Securities and Exchange Act, or the related provisions of the Taiwan Stock Exchange Corporation rules governing the review of listings, a by-election shall be held at the next Shareholders' Meeting to fill the vacancy. When the independent directors are dismissed en masse, a Special Shareholders' Meeting shall be called within 60 days from the date of occurrence to hold a by-election to fill the vacancies.

Article 4: For election of Company directors, each share will have voting rights in number equal to the directors to be elected, and may be cast for a single candidate or split among multiple candidates. The Board of Directors shall prepare separate ballots for directors in numbers corresponding to the directors to be elected. The number of voting rights associated with each ballot shall be specified on the ballots, which shall then be distributed to the attending shareholders at the Shareholders' Meeting. Elections for directors and independent directors shall be held concurrently but the respective voting rights shall be

separately calculated to determine the elected directors and independent directors.

Article 5: The number of directors will be as specified in the Company's Articles of Incorporation. The candidates to whom the ballots cast represent a prevailing number of voting rights shall be elected as independent directors or non-independent directors, respectively, based on the results of the election, in descending order. When two or more candidates receive the same number of voting rights, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any candidate not present.

If, following review, there are confirmed discrepancies in the personal information provided by any director elected as per the above paragraph or he/she is not fit to serve according to relevant laws or regulations, the resulting vacancy will be filled by the candidate receiving the next largest number of voting rights in the same election.

Article 6: If a candidate is a shareholder, a voter must enter the candidate's account name and shareholder account number in the "candidate" column of the ballot; while the candidate is a governmental organization or juristic-person shareholder, the name of the governmental organization or juristic-person shareholder shall be entered in the column for the candidate's account name on the ballot paper. If the candidate is the representative of a governmental organization or juristic-person shareholder, both the name of the governmental organization or juristic-person shareholder and the candidate's name shall be entered in the column for the candidate's account name. When there are multiple representatives, the names of each respective representative shall be entered. For a non-shareholder candidate, the voter shall enter the candidate's full name and identity card number.

Article 7: Before the election begins, the chair shall appoint a number of persons to perform the respective duties of vote monitoring and voting rights counting.

Article 8: The ballot boxes shall be prepared by the Board of Directors and publicly checked by the vote monitoring personnel before the voting commences.

Article 9: Each ballot may only specify the name of one candidate.

Article 10: A ballot is invalid under any of the following circumstances:

- (1) The ballot is not prepared in accordance with these Procedures.
- (2) A blank ballot is placed in the ballot box.
- (3) The writing is unclear and indecipherable.
- (4) There are any alterations to the writing of the candidate's account name (or name) or shareholder account number (or identity card number) or the number of voting rights allotted.

(5) The candidate whose name is entered in the ballot is a shareholder, but the candidate's account name and shareholder account number do not conform with those given in the shareholder register, or the candidate whose name is entered in the ballot is a non-shareholder, and a cross-check shows that the candidate's name and identity card number do not match.

(6) The name of the candidate entered in the ballot is identical to that of another shareholder, but no shareholder account number is provided in the ballot to identify such individual.

(7) Other words or marks are entered in addition to the candidate's account name (or name) or shareholder account number (or identity card number) and the number of voting rights allotted.

(8) The number of voting rights cast total more than the voting rights allotted to the voter.

Article 11: If the number of voting rights cast is fewer than the total number of voting rights allotted to a voter, the remaining will be considered abstentions.

Article 12: After the casting of ballots is completed, the voting rights shall be publicly counted and the results of the calculation, including the list of persons elected as directors and the numbers of voting rights with which they were elected, shall be announced by the chair on the spot.

The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.

Article 13: The Company shall issue the notification to the persons elected as directors.

Article 14: Other matters not stipulated in these Procedures shall be conducted in accordance with the Company Act, the Company's Articles of Incorporation and all relevant laws and regulations.

Article 15: These Procedures, and any amendments hereto, shall be implemented after adoption by Shareholders' Meetings.

Appendix 4

China Airlines, Ltd. Directors' Shareholdings

Base date: April 29, 2018

Title	Name	Date of Appointment	No. of Shares Held Upon Appointment			No. of Shares Currently Held			Remarks
			Type	No. of Shares	Percentage of shares issued	Type	No. of Shares	Percentage of shares issued	
Chairman	China Aviation Development Foundation Representative: HO, NUAN-HSUAN	June 26, 2015	common stock	1,867,341,935	34.14%	common stock	1,867,341,935	34.13%	
Director	China Aviation Development Foundation Representative: HSIEH, SU-CHIEN								
Director	China Aviation Development Foundation Representative: CHEN, CHIH-YUAN								
Director	China Aviation Development Foundation Representative: TING, KWANG-HUNG								
Director	China Aviation Development Foundation Representative: JONG, JIA-SHI								
Director	China Aviation Development Foundation Representative: LEE, KUO-FU								
Director	China Aviation Development Foundation Representative: CHENG CHUAN-YI								

Director	China Aviation Development Foundation Representative: CHEN, HAN-MING								
Director	National Development Fund, Executive Yuan Representative: LIN, SU-MING	June 26, 2015	common stock	519,750,519	9.50%	common stock	519,750,519	9.50%	
Independent Director	CHUNG, LO-MIN	June 26, 2015	common stock	0	0.00%	common stock	0	0.00%	
Independent Director	TING, TIN-YU	June 26, 2015	common stock	0	0.00%	common stock	0	0.00%	
Independent Director	LUO, HSIAO-HSIEN	June 26, 2015	common stock	0	0.00%	common stock	0	0.00%	
Total			common stock	2,387,092,454			2,387,092,454		

June 26, 2015 Total shares outstanding: 5,470,073,156 shares

April 29, 2018 Total shares outstanding: 5,470,984,650 shares

Note: All Directors shall hold statutory shares: 120,000,000 shares. As of April 29, 2018: 2,387,092,454 shares held.

The Company has founded an Audit Committee, hence no statutory shares shall be held by the supervisors. Shares held by Independent Directors are not included in the Directors' Shareholding total.