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CHINA AIRLINES

ANNUAL REPORT

2016



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(Summary Translation)

This document is prepared in accordance with the Chinese version and is for reference only. In the event of any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

Letter to Shareholders

1.1 Operating Performance in 2016

1.2 Business Plan for 2017

1.3 Development Strategies

I. Letter to Shareholders

2016 was an extraordinary year for China Airlines. There were difficulties brought on by global political and economic changes and China Airlines experienced the most serious internal labor dispute since its founding 57 years ago. It was an arduous year with the internal and external conflicts and threats; however, we remained diligent amongst the rapid changes of the airline industry. We believe that facing challenges head on and staying resolute is the foundation that allows this Taiwanese airline to flourish amidst adversity.

China Airlines' new recruitments, Airbus A350-900 long-range jet airliners, were added to the fleet in the end of September 2016. Aside from being known as being the most technologically advanced, environmentally friendly, energy-efficient, spacious, and quiet, this addition also helped to reduce the age of our fleet. Shortly after their introduction, the new cabin layouts and products meticulously designed by the China Airlines team have received recognition in many countries, including Japan's Good Design Award 5, Global Traveler's "Best Business Class Seat Design," TheDesignAir's "Best Business Class Cabin Design 2016" and "Best New Business Class Cabin 2016," another example of China Airlines' quest to increase competitiveness and gain the admiration of travelers the world over.

Each plane adorned with China Airlines' plum blossom relies on the hard work of countless employees to successfully complete each flight. China Airlines maintained its profits in 2016, the result of the cooperative efforts of shareholders, managers, and all team members in the face of any circumstance.

1.1 Operating Performance in 2016

Operating income was NT\$127.525 billion, down 4.43% from last year; net profit after tax was NT\$572 million, equating to a profit of NT\$0.10 per share.

1.1.1 Results of the business strategy

- Fleet:

98 planes as of the end of December: 77 passenger jets (including rentals) and 21 cargo aircrafts.

Five Boeing 737-800 passenger jets were rented in 2016 for a period of eight years and two Boeing 777-300ER passenger jets were rented for a period of 12 years. Four A350-900 passenger jets were purchased and one A340-300 passenger jet and two 737-800 passenger jets were sold.

- Passenger flights:

Passenger flight operating income was NT\$86.298 billion, down 1.83% from last year and accounting for 67.67% of total operating income. As of the end of December, China Airlines offers passenger flights to 81 destinations in 22 countries; Yangzhou, China is a newly added destination. The newly acquired A350 jets improves flights to Europe, allowing passengers to fly directly to Amsterdam and Rome, increases the number of weekly flights to New York, Sydney, Brisbane, Auckland, Osaka, Takamatsu, Yangon, and Kuala Lumpur, and optimizes the flight times to Delhi, Nanchang, Singapore, Surabaya, and Guam.

- Cargo flights:

Cargo flight operating income was NT\$35.354 billion, down 11.43% from last year and accounting for 27.72% of total operating income. As of the end of December, China Airlines offers cargo flights to 96 destinations in 29 countries; among these, all-cargo aircraft services are offered for 33 destinations covering Asia, Europe, and the Americas making 89 flights each week.

- Other operating income:

Other operating income, including in-flight duty-free sales, was NT\$5.873 billion, up 4.58% from last year and accounting for 4.61% of total operating income.

- Investments and earnings:

As of the end of December, China Airlines has invested in 36 projects, including aviation, grounds, logistics, and cargo activities. Annual investment earnings were NT\$101 million.

1.1.2 Business cash flow budget and profitability analysis

- Cash flow:

Operating income was NT\$127.525 billion, down NT\$5.917 billion from last year. Operating costs and expenditures was NT\$123.049 billion, down NT\$2.508 billion from last year.

Net profits before taxes was NT\$1.538 billion, down NT\$5.3 billion from last year.

Net profits after taxes was NT\$572 million, down NT\$5.192 billion from last year.

- **Budget execution:**

Expected operating income was NT\$141.874 billion; actual operating income was NT\$127.525 billion (89.89%). Expected operating costs and expenditures was NT\$134.043 billion; actual operating costs and expenditures was NT\$123.049 billion (91.80%). Expected non-operating losses was NT\$1.652 billion; actual non-operating losses was NT\$2.938 billion. Annual actual net profit before taxes was NT\$1.538 billion, achieving 24.89% of the budget.

- **Profitability:**

Return on assets 0.75%

Return on equity 1.00%

After-tax profit margin 0.45%

After-tax earnings per share NT\$0.10

1.1.3 Research and development

China Airlines endeavors to improve our overall service quality and strives for excellence and innovation. We continuously optimize our online reservation platform to support smartphones and various payment methods. Our official website is offered in 14 languages and provides online customer services to enhance the customer experience. We also raise China Airlines' competitiveness by improving the exchange of information within the company, quickly responding to sales demand, and increasing the flexibility and efficiency of each department using our five main data innovation and smart mobile strategies: information security, mobilization, big data, cloud applications, and customization.

1.2 Business Plan for 2017

The aviation industry's operating environment is deeply affected by a variety of factors including global economic growth, oil prices, and political and economic circumstances. According to the latest forecast published by Oxford Economics, the global economic growth rate in 2017 will be 2.6%, slightly more than 2016's rate of 2.3%, which shows higher optimism towards 2017 growth than the previous year. However, Taiwan's primary trading nations, China and Japan, are seeing slowed or even near

zero economic growth, so concerns remain about the overall economic growth momentum. Fuel costs make up the bulk of operating costs in the aviation industry and oil prices are expected to remain low in the short term. Oil price fluctuations cannot be ignored and in December 2016, OPEC and non-OPEC oil producing nations agreed for the first time to a global pact to limit supply. In the long term, international fuel prices are still expected to rise.

According to the December 2016 International Air Transport Association (IATA) global aviation market outlook report, due to the rapid development of the air passenger market, overall supply growth is outstripping demand growth. IATA estimates that in 2017 this trend will also be seen in the Asia-Pacific region with the supply and demand growth rates reaching 7.6% and 7.0% respectively. Due to weak air cargo demand in recent years and increased cargo capacity on passenger airliners there is continued oversupply in the air cargo market. IATA estimates that in 2017 cargo demand growth will reach approximately 3.5% while ATK (available tonne kilometers) will grow by 5.0% resulting in a cautiously optimistic outlook regarding overall air freight market development.

1.2.1 Overall Fleet Capacity Plan

In order to take advantage of the demand growth momentum in the passenger and cargo markets, China Airlines' 2017 Overall Fleet Capacity Plan comprises 84 aircraft, one more than 2016. Of these, passenger aircraft total 66, while cargo aircraft total 18. The changes by aircraft model are listed below:

Aircraft Model	End 2017	End 2016	Difference
A333-300	24	24	0
A340-300	0	4	-4
A350-900	10	2	8
737-800	17	17	0
747-400	4	7	-3
777-300ER	10	10	0
E90	1	1	0
Total Passenger Airliners	66	65	1
747-400F	18	18	0
Total Passenger and Freight Airliners	84	83	1

1.2.2 Passenger Service

In cooperation with the government's "New Southbound Policy", in addition to continued evaluation of adding new destinations and more flights on Southeast Asian, Australian and New Zealand routes, cross-strait route capacity will be adjusted as necessary to stay in line with tightening market demand.

• Cross-Strait Routes:

Following mainland Chinese restrictions on tour group travel to Taiwan beginning in March 2016, group travel volume to the island has decreased significantly. Capacity on some routes has already been adjusted. In addition to responding to cross-strait policy development and market conditions, on January 24, 2017, China Airlines (CAL) Group acquired new flying rights and is actively assessing the feasibility of adding routes and flights to increase profitability of cross-strait services.

• Northeast Asian Routes:

Last year, about 6 million tourists travelled between Taiwan and Japan and this number is expected to reach a new high in 2017. To take advantage of this opportunity, in addition to increasing summer season Taipei – Takamatsu flights from four to six per week, the feasibility of increasing flights on other routes is also being assessed. The largest growth was seen last year in the numbers of Korean tourists visiting Taiwan. After inaugurating the Taipei – Daegu and Taipei – Busan routes, subsidiary Tigerair Taiwan will continue to add flights and new routes. Within the Group, the Korea route network will continue to be strengthened and expanded to increase market share.

• European Routes:

To optimize our European flight network and timetable, China Airlines began offering exclusively non-stop service beginning in December 2016 to all European destinations including Frankfurt, Vienna, Amsterdam, and Rome. Each week there are a total of 16 flights with an average of two non-stop flights to Europe daily, the most for any airline operating Taiwan-Europe routes. In 2017, China Airlines Group will continue to introduce A350-900 airliners into the fleet, as we evaluate adding flights on existing routes and expanding to potential new routes. At the same time, the Company seeks to expand the scope of airline partnerships to increase transport

capacity in order to provide passengers with the greatest number of convenient flight options.

• Australia and New Zealand Routes

To meet market demand, during the peak season in 2016, the number of flights was increased along the Sydney and Christchurch routes. To coordinate Southeast Asian routes with the "New Southbound Policy", Yangon flights were increased to seven per week and Kuala Lumpur to 12 flights. In response to the signing of an open skies agreement with Australia on December 16, China Airlines will continue to evaluate adding new destinations and flights to Australia, New Zealand, and Southeast Asia and actively expand the two-way travel network to strengthen passenger services.

1.2.3 Cargo Service

IATA expects growth in global cargo market demand in 2017 and estimates cargo volume will reach 55.70 million tons, which is an increase of 3.5% from 2016. In addition, the continued decrease in cargo rates seen over recent years has slowed, so there is cautious optimism towards trends in air cargo in 2017. However, as cargo space on passenger aircraft continues to increase, supply will continue to outpace demand. Also, with the recent rise of protectionism, there is concern regarding the potential negative effects on global trade and such trends must be watched carefully.

• Long-Haul Routes

Each week, China Airlines has 41 scheduled long-haul cargo flights (34 Trans-Pacific flights and 7 European flights). Through flexible adjustment of routes and cargo capacity, trans-Pacific cargo flights keep up with seasonal fruit exports. Flights to and from the US can take advantage of fifth freedom stopovers in Osaka in order to further expand revenue from the US and Japanese markets. Additionally, as Boeing 777-300ER passenger planes are put into operation, the cargo capacity of these new planes is being fully utilized. To optimize our European flight network, in August 2016 China Airlines added a Sunday cargo flight to Luxembourg via Delhi, which strengthens service to India's emerging market and expands our flight network. The feasibility of adding a second European flight via Delhi is also being explored to strengthen the Company's market competitiveness.

- **Asian Routes:**

Each week there are 48 scheduled cargo flights. In greater China, we have leveraged our advantages in Guangzhou, Shenzhen, Xiamen, and Hong Kong flights to increase cargo shipments from Southern China. In Japan, the Company continues to focus on key air cargo products such as precision instruments / machine equipment, cars, and car parts and utilize fifth freedom traffic rights to expand import and export cargo transit on transoceanic flights via Japan. In ASEAN emerging markets, as the air cargo demand for electronics and textiles increases, we will continue to cultivate Singapore, Vietnam, Malaysia, Indonesia, the Philippines, and Thailand to take advantage of inter-Asia freight transportation needs. Depending on market demand, plans are in place to add a Singapore – Penang cargo flight in the first quarter of 2017.

- **Alliances Inside and Outside the Industry:**

In addition to actively working with companies within the international air cargo industry (UPS, FedEx, SF Express) to expand express delivery cargo business, through code-share charters and signing cooperation agreements, China Airlines will further expand our network to new markets in Central and South America and Africa. Through sharing marketing, networks, and resources with other members of the SkyTeam Cargo alliance, the Company's global air cargo footprint has been strengthened.

1.3 Development Strategies

Looking towards 2017, further restrictions on Chinese tourist visits, extreme competition in the Japanese and Korean markets, and potential increases in oil prices are on the horizon. To break free from this difficult environment and market turmoil, China Airlines will focus on our basic promise to all stakeholders, "Safety" and "Profitability".

China Airlines has consistently passed world's most stringent aviation safety review, the IATA Operational Safety Audit. With this strong foundation and absolute commitment to safety without compromise, we will continue to implement concrete steps to further improve flight safety and

ensure that each safety measure meets the highest international standards to best safeguard our passengers.

To increase profitability, China Airlines continues to optimize flight routes, while increasing competitiveness of our products and services. In coordination with the government's "New Southbound Policy", we will effectively utilize flight capacity in potential Southeast Asian destinations to create new opportunities in this ultra-competitive market. Secondly, China Airlines will join with Japan Airlines to offer code-share flights for all Taiwan – Japan routes, providing customers with more choices and maintaining our competitive niche. Following introduction of the A350 to our fleet, China Airlines now provides non-stop only service to Europe and the most complete Taiwan to Europe flight network, which will consolidate our leading position in the Taiwan – Europe market.

In recent years, growth in civil aircraft numbers in the Asia-Pacific region has accelerated. Taiwan is centrally located within the region and prospects are bright for the development of airplane maintenance services. China Airlines is also discussing a collaboration plan with Airbus and Aerospace Industrial Development Corporation. With the support of Airbus, CAL can upgrade our maintenance, engineering, and technical training capabilities to provide services to Asian A350 airliners visiting Taiwan, which is a long term development opportunity for China Airlines.

China Airlines will continue to live up to our most basic promise to stakeholders, "Safety" and "Profitability". Every member of the China Airline's family works together to burnish our brand image, earn the respect of our community, and lead the Company to a new generation of development!

Chairman: Ho, Nuan-Hsuan

President: Hsieh, Su-Chien

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

Company Profile

2.1 Date of Incorporation

2.2 Company History

II. Company Profile

2.1 Date of Incorporation

September 7, 1959

2.2 Company History

1959: China Airlines (CAL) was founded by 26 retired members of the Air Force with TWD 400,000 in capital. The Company flew charter flights using two rented PBY seaplanes.

1961: Provided military supply transport to Laos.

1962: Flew special cargo missions for the Vietnamese government and USARV. Inaugurated the first domestic route from Taipei to Hualien.

1966: Inaugurated the first international route from Taipei to Saigon (now Ho Chi Minh City), marking our official start in international aviation.

1967: Inaugurated Northeast Asia routes.

1970: Developed trans-Pacific routes to explore the US market.

1976: Inaugurated Middle East and Saudi Arabia Routes.

1978: Invested in Taoyuan International Airport Services Co., Ltd.

1980: Invested in Dynasty Holidays, Inc.

1983: Expanded European routes.

1986: Divided the Operations Division into Passenger Division and Cargo Division to expand operations.

1988: Twenty-seven shareholders donated shares to establish the China Aviation Development Foundation, transferring the rights of supervision and management to society.

1989: Invested in Hwa Hsia Co., Ltd. and Tai Kong Ju Investment Co., Ltd.

1990: Added Phuket and Bali destinations. Invested in Abacus Distribution Systems (Taiwan) Ltd.

1991: Established Hua Mei Investment Company and Mandarin Airlines. The Ministry of Finance approved the public offering of China Airlines shares.

1992: Resumed flights to Ho Chi Minh City. The Taiwan Stock Exchange approved the listing of China Airlines shares. The Company gained 100% equity interest in Mandarin Airlines.

1993: First flight to Frankfurt. Established German Branch Office. Officially listed on the Taiwan Stock Exchange.

1994: New engine repair plant became operational and Songshan Training Minquan Building opened. Set up China Pacific Catering Services as a joint venture with the Swire Group.

1995: First flights to Switzerland and Italy. Entered into a joint venture with Pratt & Whitney and SIA Engineering Company Limited to establish Asian Compressor Technology Services Co. in Taiwan. Invested in CAL-Asia Investments Inc. Launched our "plum blossom" logo.

1996: Inaugurated the Taipei-Penang cargo route.

1997: Inaugurated the Kaohsiung – Hong Kong – Jakarta route. Established the first cargo only flights between Asia and Miami. Established code share flights with Continental Airlines and American Airlines. Invested in Huasheng Investment Company and China Pacific Laundry Services Ltd.

1998: Set up our Penang Branch Office and Hanoi Branch. Began using the Third Maintenance Hangar.

1999: Inaugurated cargo flight routes to Sydney, Delhi, and Colombo. Set up Kaohsiung Airport Catering Services as a joint venture with TransAsia Airlines and Far Eastern Air Transport. Established Chung Hwa Express Corp. as a joint venture with Chunghwa Post. Established TACT Logistics through investment transfer.

2000: Launched Canada, Australia and New Zealand routes and Taipei-Guam, Taipei – Manila, Kaohsiung – Manila, Hakodate charter, and Taipei – Penang passenger flights and Frankfurt cargo flights. Established Shanghai office in Mainland China and new branch offices in Canada, Australia, New Zealand and Guam. Established YesTrip Travel Internet Technology Co.

2001: Inaugurated cargo flight routes to Seattle and Nashville. Made indirect investment in Xiamen International Airport Co., Ltd. Set up code-share flights with Delta Airlines. Introduced A340-300 passenger jets.

2002: Inaugurated passenger flight routes to Delhi and cargo routes to Manchester. Received approval to invest in China Cargo Airlines. Ordered 18 Airbus A330 passenger aircraft and 10 Boeing 747-400 cargo and passenger aircraft. Rejoined the International Air Transport Association (IATA).

- 2003: Inaugurated the first cross-strait Spring Festival charter flight. Inaugurated charter flights to Seoul and passenger routes to Brisbane and Hanoi and non-stop flights to Hawaii. Inaugurated cargo flight routes to Ho Chi Minh City and Delhi. Created the Paragon Card, the highest Dynasty Flyer membership tier. Received the Outstanding Service Award from the R.O.C. President.
- 2004: Launched sea-air transport charter flights. Inaugurated Hiroshima passenger flights and cargo routes to Milan and Prague. Introduced three A330-300 passenger jets, two Boeing 747-400 passenger jets and two Boeing 747-400 freighters.
- 2005: Flew the first direct charter flights to Beijing, and Spring Festival charters to Guangzhou and Shanghai. Inaugurated Vienna passenger flight route and Nagoya and Vienna cargo flight routes. Invested in China Aircraft Services Limited.
- 2006: Inaugurated cargo flight routes to Osaka, Hanoi, Houston and Stockholm. Flew the first cargo charter flight to Shanghai. Invested in Yangtze River Express Airlines Company. Began construction on the Taoyuan International Airport Airline Business Operation Center.
- 2007: Signed a letter of intent to purchase with Airbus. Announced contract with AccorHotels for a new airport hotel. Inaugurated regularly-scheduled passenger flights between Kaohsiung and Chiang Mai.
- 2008: Launched cross-strait humanitarian charter flights direct to Chengdu to deliver disaster relief supplies at no charge. Inaugurated cross-strait holiday charter flights, weekend charter flights to Shanghai, Beijing, Xiamen, and Guangzhou, and cross-strait direct cargo charter flights.
- 2009: Inaugurated the Taipei-Osaka-Los Angeles cargo flight route. Inaugurated scheduled cross-strait flights to Zhengzhou, Xiamen, Xi'an, Ningbo, Shenyang, and Changsha. Became an official member of IATA's e-Freight program. Inaugurated Taiwan's largest 120,000-pound power plant testing platform.
- 2010: New routes: Passenger routes between Taipei and the cities of Miyazaki, London, and Qingdao, Songshan Airport to Hongqiao and Haneda, and Kaohsiung to Xiamen and Narita, direct cargo flights to Xiamen, Nanjing and Fuzhou as well as the special cargo charter flight direct to Xi'an. Established Company headquarters in China Airlines Park and won the National Building Golden Award and National First Award.
- 2011: New routes: Taipei-Brisbane-Auckland; Taipei-Osaka-New York; flights to and from Taipei and Wuhan, Sanya, Yancheng, Haikou, Nanchang and Dalian; Taicheng to Chongqing and Nanchang; Kaohsiung to Changsha, Chongqing, Beijing, and Kuala Lumpur. Officially joined SkyTeam, becoming the first Taiwanese airline member of an international airline alliance.
- 2012: New routes: Songshan to Wenzhou and Gimpo Airport, Taipei to Kagoshima, Shizuoka and Toyama, added Auckland leg to the Taipei – Sydney route, and Taipei to Seoul and Yangon. Joined SkyTeam Cargo becoming the first Taiwanese airline to join an international air cargo alliance. Renovated the cabins of nine Boeing 747-400 passenger jets to install new cabin seats and video systems. Signed a Memorandum of Strategic Cooperation with Chunghwa Telecom. Signed an OnPoint Fuel & Carbon Solutions Agreement with GE Aviation. Awarded Business Next Magazine's Super Green Jury Award and First Place in the Green Brand Awards 2012 Transportation Category, Gold Award in Reader's Digest Trusted Brands 2012, the Sports Activists Award from Sports Affairs Council, First Place in Management Magazine's Consumer Brand Survey, and the 2012 Energy Conservation and Carbon Reduction Action Label Excellence Award. The China Airlines Maintenance Facility received ISO 14001 Environment Management System Certification. Launched the world's first trans-Pacific climate observation aircraft. Became the world's first airline to display our carbon footprint and calories for in-flight meals.
- 2013: Formed Greater China Connection Partnership with China Southern, China Eastern and Xiamen Airlines. Launched code-sharing services with Russia's Transaero Airlines and Hawaiian Airlines and expanded code-sharing services with China Southern Airlines. Launched Taipei-Takamatsu route, Chiayi-Shizuoka charter flights, Taipei-Hawaii direct flights, Taipei-Urumqi and Lijiang routes. Launched Taipei-Ishigaki, Tainan-Hong Kong, and Taipei-Busan routes as well as Songshan-Matsuyama charter flights. Launched the Taipei-Nanjing-Zhengzhou cargo route and Taipei-Weihai flights. Launched temperature-controlled product cargo services. Again awarded Business Next Magazine's Super Green Jury Award and First Place in the Green Brand Awards 2013 Transportation Category. Awarded Top Aviation Brand in Manager Today's Power Brands Survey 2013 and Reader's Digest Trusted Brands Gold Award. Won the National Standardization Awards' Corporate Standardization Award, 3rd Taiwan Green Classics Award, Global Views Service Excellence Award 2013, and EPA's 22nd Business Environmental Award.
- 2014: Awarded the EPA's 23rd Business Environmental Award and the International Green Classics Award 2014 and earned ISO 14001 Environment Management System Expansion Certification and ISO 50001 Energy Management System Setup Certification. Again awarded Business Next Magazine's Super Green Jury Award and earned First Place in the Green Brand Awards Transportation Category for the third time.

Inaugurated the Songshan-Fuzhou and Taipei to Changchun, Hefei, Yantai, and Xuzhou routes. Won the Annual Best of Design Awards in the 2014 Golden Pin Design Award for our NextGen 777 aircraft cabin design and named the Best Airline in North Asia by Global Traveler.

2015: Launched Taipei-Wuxi; Kaohsiung to Changzhou, Kumamoto, and Fukuoka; Taipei-Melbourne with an extension to Christchurch; and Tainan-Osaka flights. Launched social media customer services, a first for Taiwan. Established an airplane maintenance training center. Received the following awards:

- **Brand Service:**
CAA 2014 Golden Wing Awards, Second place in TheDesignAir Global Passenger Choice Top 10 Airlines Awards 2015, Reader's Digest Trusted Brands Gold Award, three top awards in the Global Traveler reader survey.
- **Corporate Social Responsibility:**
2015 TCSA Taiwan Corporate Sustainability Award, EPA's Business Environmental Awards.
- **Product Design:**
The NextGen 777-300ER passenger cabin design was awarded the Red Dot Design Award 2015, Family Couch design received the Global Traveler Leisure Travel Innovation Excellence Award, Won National Industry Innovation Award for NexGen Aesthetics.
- **Other:**
Centers for Disease Control Epidemic Prevention Award 2015

2016: Launched Taipei-Yangzhou route and Taipei – Shenzhen cargo route. Inaugurated Chinese passenger transit through Taiwan for onward China Airlines flights. Increased free baggage allowance by 10 kg and reduced regional excess baggage charges. Took delivery of the first A350 airliner for any Taiwanese carrier. Completed the Air Passenger Transport Service – Product Carbon Footprint Category Regulations together with the Civil Aeronautics Administration. Received the below awards:

- **Brand Service:**
PAX International magazine reader survey's 2016 Outstanding Food Service by a Carrier, Best Premium Economy and Best Airline by Global Traveler, China Airlines Dynasty In-flight Magazine won APEX Award of Excellence, the CAL website was named 2016 Best Airline Website by WebAward.
- **Corporate Social Responsibility:**
Passed third-party audits for ISO 14001 and ISO 50001 Environmental Management Systems. Received IOSA flight safety certification and the TCSA Taiwan Corporate Sustainability Award 2016.

- **Product Design:**
Received 5 iF Design Awards for the Boeing 777-300ER passenger cabin, software user interface, tableware design, Sky Lounge design packaging, and Taiwan Taoyuan Airport Terminal 1 Lounge. A double win in TheDesignAir Awards 2016.

- **Other:**
Selected as a Dow Jones Sustainability Indices constituent stock, the first such honor for a Taiwanese company and emerging market airline.

2017: Signed a memorandum of understanding with KLM. Expanded codeshare operations with JAL to all Taiwan-Japan flights operated by the two carriers. Signed a memorandum of understanding with Airbus to strengthen aircraft maintenance cooperation. Signed a memorandum of understanding with NORDAM Aerospace Maintenance Group to provide maintenance services for thrust reversers and composite aerospace parts.

Corporate Governance Report

3.1 Organization

3.2 Directors and Management Team

3.3 Implementation of Corporate Governance

**3.4 Information Regarding the Company's Audit Fee and
Independence**

3.5 Replacement of CPA

3.6 Audit Independence

**3.7 Changes in Shareholding of Directors, Managers and
Major Shareholders**

3.8 Relationships among the Top Ten Shareholders

3.9 Ownership of Shares in Affiliated Enterprises

3.1.2 Major Corporate Functions

Department	Functions
General Audit Office	Responsible for auditing the internal control system, results of implementation of the annual business plan.
Secretarial Office, Board Of Directors	Responsible for holding Board of Directors meetings, collating and sending meeting proceedings and overseeing matters relating to resolutions, coordination channels with general public stockholders, matters relating to juridical person shareholder representatives, director communications and services, and budgeting and controls for the Board and all functional committees.
Corporate Development Office	Responsible for drafting the Company's medium and long-term strategic operating plan, fleet plan, and annual business plan; seeking flying rights and building relationships between the Company and civil aviation authorities in various countries; establishing brand position and development strategies; planning medium and long-term design and development of passenger cabins and entertainment systems; purchasing, selling, and leasing of aircraft; evaluation and planning of Company investments; and supervising the operational performance and management of invested enterprises.
Corporate Safety Office	Drafts Company safety, security, quality assurance, environmental, and emergency response policies and systems; establishes related management systems and carries out educational training; implements related investigations, analysis, and examinations; coordinates with government agencies and civil aviation authorities, manufacturers, and groups to deal with Company safety, security, quality assurance, environmental, and emergency response-related issues.
Corporate Communications Office	Responsible for external Company communications, communication links with the legislature and the media, planning social welfare activities, sponsoring charitable activities, organizing inaugural flights and other holiday or celebratory activities, publishing CAL Park Magazine, supervising and coordinating publication of Dynasty Magazine, organizing employee recreational activities, and setting the Company's brand image and advertising strategy.
Legal & Insurance Div.	Responsible for reviewing all outside agreements and contracts, handling litigation, and management of insurance matters for Company assets, such as the fleet and aeronautical parts, personnel, and passenger and cargo transportation.
Finance Div.	Responsible for planning financing sources, managing use of funds, controlling the budget, auditing accounts receivable and payable items, preparing financial statements, managing tax-related issues, fuel purchasing, and providing accounting and cost analysis information.
Administration Div.	Responsible for procurement of general goods, managing renovation projects and land/real estate, land transport management and vehicle maintenance, supervising CAL Park security and access control management, handling company licenses, monitoring and safekeeping of Company seals, sending and receipt of prospectuses and official documents, and document management.

Department	Functions
Cabin Crew Div.	Responsible for establishing cabin crew operating standards, managing training of cabin crew, planning cabin crew manpower needs, and implementing assignment of cabin crew personnel.
Ground Services Div.	Responsible for establishing ground services operating standards, development of the ground services operating system, planning and implementation of a full range of ground services training, supervising ground services operations at each station, providing ground services at Taiwan Taoyuan and Songshan Airports, and overall management of ground service provider contracts.
In-Flight Service Supply Div.	Responsible for the R&D and planning for air and ground service supplies and in-flight duty free products, planning and supply management for meal and drink service on all routes, implementing and managing procurement, storage, preparation, and loading of all air and ground service supplies.
Service Quality Assurance Dept.	Established and implements the Company's ISO 9001 quality management system and implements service quality education, internal quality auditor training, and measures to encourage better understanding of quality-related issues. Monitors passenger satisfaction surveys and on-time targets, investigates and analyses passenger satisfaction in relation to Company goals, and plans and implements passenger service quality checks.
Passenger Sales Div.	Responsible for supervision of passenger flight route management, sales promotion and supervision of passenger transport advertising and budget control at all stations, passenger seating controls, determining passenger ticket pricing and setting sales quotas, and business performance evaluation. Established, develops, and maintains the revenue management system and holds passenger sales training.
Passenger Marketing Div.	Responsible for passenger service internet marketing, promoting Dynasty Flyer membership, planning and promotion of Dynast Package products, and development and management of related systems. Arranges the entire passenger flight table to optimize aircraft use and revenue. Established and supervises the customer relationship maintenance service mechanism, and handles and analyses passenger opinions.
Information Management Div.	Combines information technology with business knowledge to promote computerization within the Company to upgrade operational competitiveness.
Human Resources Div.	Responsible for planning the Company organization and human resources, establishment of a personnel management system, and setting pay standards. Provides recruitment services, supervises personnel management, established the employee training system and oversees future updates, provides employee health management, and manages personnel assignments to affiliated enterprises.
Occupational Safety & Health Dept.	Writes the Company's Occupational Health and Safety Manual and regulations; Drafts, plans, supervises, and promotes health and safety matters and guides implementation in relevant departments in order to prevent occupational hazards and ensure employee's health and safety. Received OHSAS 18001 and CNS 15506 occupational health and safety certification following SGS audit to effectively control occupational incident risk and improve occupational health and safety performance.

Department	Functions
Cargo Sales, Marketing & Services Div.	Establishes the cargo development strategy, supervises cargo operations on all routes, plans the cargo flight timetable and controls allocation of hold space, sets cargo shipping rates and sales quotas, evaluates operating performance, drafts and oversees cargo services and operating standards, and is responsible for passenger and cargo plane loading control operations, cargo equipment controls and replenishment, Taipei cargo terminal operations, and accounting for the Cargo Sales, Marketing & Services Division and Taiwan Cargo Center.
Flight Operations Div.	Responsible for cabin crew manpower requirement planning, training and management of cabin crew, developing flight operating standards, controlling fuel consumption, planning and implementation of crew and flight assignments, and maintaining airplane flight manuals and flight simulators.
System Operation Control Div.	Supervises the status of all flights, coordinates flight scheduling during abnormal conditions, maintains flight on-time performance, provides real-time information to planes in flight, ensures flight safety, investigates reasons behind major flight delays to build complete aircraft and statistical analysis data; Implements and supervises airline task assignments, arranges and receives overflight permits; Responsible for operation-related safety management.
Maintenance Div.	Responsible for implementation of airplane maintenance, client aircraft maintenance services, support and supervision of station maintenance, and development of maintenance capabilities.
Engineering Div.	Responsible for the planning and control of airplane maintenance, materials supply management, controlling maintenance costs, and planning the information system development strategy.
Quality Assurance Div.	Responsible for coordination and communication with other countries' civil aviation authorities; maintaining the validity of operating standards, repair facility licenses, and aircraft airworthiness certificates; authorization and management of maintenance personnel training and task assignments; formulation and implementation of the quality audit system. Established and implements the aircraft quality management and on-site inspection systems, implements introduction of new aircraft and sale or return of aircraft as stipulated in the fleet plan, and assists in aircraft incident investigations.
Technical Training Center	Develops type training and license conversion training that comply with CAA 05-02A requirements. By EMO(Engineering & Maintenance Organization) demands and customer requests, compose training plan and execute training accordingly.
Branch offices	Responsible for each branch's development and promotion of passenger and freight related operations.

3.2 Directors and Management Team

3.2.1 Directors

APR 24, 2017

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Sharehold- ing by Nominee Arrangem- ent		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Sh- ar- es	%			Tit- le	Name	Rel- ati- on
Chairman	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/26/2015	3	1,867,341,935	34.14%	1,867,341,935	34.13%	-	-	-	-	-	-	-	-	-
	Representative: Ho, Nuan-Hsuan	R.O.C.	Male	06/24/2016	06/26/2015	(Note 1)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, Taoyuan Metro Corporation Member, The Coordination Council for North American Affairs, Executive Yuan Administrative Deputy Minister, Ministry of Transportation and Communications Chairman, Chungghwa 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 PhD in Industrial Engineering and Management, Chung Hua University	Chairman, China Airlines Ltd. Chairman, CAL Park Co., Ltd Chairman, CAL-Asia Investment Inc. Chairman, CAL-Dynasty International, Inc. Chairman, CAL Hotel Co., Ltd. Vice Chairman, China Pacific Catering Services Ltd. Director, China Aviation Development Foundation	None	None	None
Director	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/26/2015	3	1,867,341,935	34.14%	1,867,341,935	34.13%	-	-	-	-	-	-	-	-	
	Representative: Hsieh, Su-Chien	R.O.C.	Male	07/06/2016	06/26/2015	(Note 2)	48,517	0.00%	48,517	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Air Cargo Terminal Ltd. Senior Vice President of Marketing, China Airlines Ltd. Director of Taiwan Region and General Manager of Taipei Branch Office, China Airlines Ltd. General Manager, Australia Branch Office, China Airlines Ltd. General Manager, Indonesia Branch Office, China Airlines Ltd. General Manager, Kaohsiung Branch Office, China Airlines Ltd. Director, China Aviation Development Foundation Chairman, Abacus Distribution Systems Taiwan Ltd. Bachelor's Degree, Department of Economics, Soochow University	President, China Airlines Ltd. 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.	None	None	None
	Representative: Charles C.Y., Chen	R.O.C.	Male	07/01/2000	06/26/2015	3	190,166	0.00%	190,166	0.00%	155,849	0.00%	0	0.00%	Director, Wan Hai Lines Ltd. Chairman, UTAC Group, Singapore Chairman, Epistar Corp. Director, Formosa International Hotels Corp. Director, Ascendas Pte. Ltd. MBA, New York University, U.S.A.	Chairman, Eyon Holding Group Vice Chairman, Taiwan Air Cargo Terminal Ltd. Vice Chairman, Taian Insurance Co., Ltd. Director, Epistar Corp. Director, Ichia Technologies, Inc. Chairman, Wan Hai International Pte. Ltd. President, Chen-Yung Foundation Adjunct Associate Professor, National Tsing Hua University	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Sharehold- ing by Nominee Arrangem- ent		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Sh ar es	%			Titl e	Na me	Rel ati on
Representative:	Ting, Kwang-Hung	R.O.C.	Male	01/28/2008	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, Central Trading & Development Corp. BA in Finance, Boston University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Chairman, Central Trading & Development Corp. Chairman, Phu My Hung Asia Holdings Corp. Chairman, Phu My Hung Development Corp. Chairman, Hiep Phuoc Power Co., Ltd. Chairman, Macro Technologies Inc. (Vietnam) Ltd. Vice Chairman, TVBS Media Inc. Visiting Professor, College of Management of National Taiwan Normal University	No	Non	No
Representative:	Jong, Jia-shi	R.O.C.	Male	08/09/2016	06/26/2015	(Note 3)	543	0.00%	543	0.00%	0	0.00%	0	0.00%	Standing Director, China Airlines Employee Union Mission Association Representative, China Airlines Employee Union Mechanic, Engine Repair Technician, R.O.C. Air Force Republic of China Air Force, Technical School, non-commissioned officers classes 85 Mechanical Associate Degree, Mechanical Engineering Section, Southeast Private Junior College	Chairman, China Airlines Employee Union. Technician, Surface Treatment EMO Engine Maintenance Department China Airlines Ltd.	No	Non	No
Representative:	Lee, Kuo-Fu	R.O.C.	Male	07/13/2015	06/26/2015	(Note 4)	10,859	0.00%	10,859	0.00%	10,473	0.00%	0	0.00%	First Officer By AB6Fleet First Officer And Cruise Captain By 744Fleet Director, Jiantan Community Development Association Test Pilot, R.O.C. Air Force Lieutenant Colonel, R.O.C. Air Force Research Officer Of Flight Safety, National Taiwan University Bachelor's Degree of Science, R.O.C. Air Force Academy, Taiwan	744 Captain, China Airlines Ltd. Standing Director, China Airlines Employee Union Director, Federation of Aviation Employees, R.O.C.	No	Non	No
Representative:	Cheng, Chuan-Yi	R.O.C.	Male	07/26/2016	06/26/2015	(Note 5)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	President, EVA Air Executive Vice President, EVA Air Bachelor's Degree, Department of International Business, Tunghai University	None	No	Non	No
Representative:	Chen, Han-Ming	R.O.C.	Male	07/26/2016	06/26/2015	(Note 5)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Director, Yuan-Chin Development Co., Ltd. Member, Rotary Club Of Taipei Tunhua BA(Hons) Architecture, University of Plymouth, UK MSc, Birmingham City University, UK	Chairman, Prime Development Co., Ltd. Supervisor, Chang-Jia M&E Engineering Corp. Director, Chyn-Tay Bearing Co., Ltd.	No	Non	No
Director	National Development Fund, Executive Yuan	R.O.C.	-	06/15/2012	06/26/2015	3	519,750,519	9.50%	519,750,519	9.50%	-	-	-	-	-	-	-	-	-

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Sharehold- ing by Nominee Arrangem- ent		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Sh- ar- es	%			Titl- e	Na- me	Rel- ati- on
	Representative: Lin, Su-Ming	R.O.C.	Male				0	0.00%	0	0.00%	0	0.00%	0	0.00%	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 Ph.D. in Accounting, Arizona State University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Public Director, Taipei Exchange, R.O.C. Independent Director, Nan Shan Life Insurance Co., Ltd. Director, iPASS Corp. Professor, Department & Graduate Institute of Accounting, National Taiwan University	No	Non	No
	Chunghwa Telecom Co., Ltd.	R.O.C.	-				263,622,116	4.82%	263,622,116	4.82%	-	-	-	-	-	-	-	-	-
Director	Representative: Huang, Hsiu-Gu	R.O.C.	Male	06/15/2012	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Sen. Exe. VP & CTO, Chunghwa Telecom Co., Ltd. President, International Business Group, Chunghwa Telecom Co., Ltd. President, Enterprise Business Group, Chunghwa Telecom Co., Ltd. Managing Director, Enterprise Business Division, Chunghwa Telecom Co., Ltd. Managing Director, Design Division, Chunghwa Telecom Co., Ltd. M.S. in Management Science, National Chiao Tung University	Member, Risk Committee, China Airlines Ltd. Director, The Chinese Institute of Electrical Engineering Director, Taipei Computer Association Director, Taipei Financial Center Corp. Chairman, Smartfun Digital Co., Ltd.	No	Non	No
Independent Director	Chung, Lo-Min	R.O.C.	Male	06/15/2012	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, China Steel Chemical Corp. Chairman, Universal eXchange Inc. Exec. VP, China Steel Corp. VP of Finance, China Steel Corp. MBA, Arizona State University, U.S.A.	Chairman, Audit Committee, China Airlines Ltd.	No	Non	No
Independent Director	Luo, Hsiao-Hsieh	R.O.C.	Male	06/15/2012	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Commissioner, Department of Transportation, Taipei City Government Mayor Advisor, Taipei City Government President, Taipei Society for Traffic Safety Acting Chairman, Managing Director, Taipei Rapid Transit Corp. Director, EasyCard Investment Holdings Corp. and Easy Card Corp. Chairman and Member, Transportation Committee, Consumers' Foundation, Chinese Taipei Chairman, Department of Transportation Management, Tamkang University Ph.D. in Civil Engineering (Transportation), National Taiwan University	Chairman, Remuneration Committee, China Airlines Ltd. Chairman, Risk Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd. Associate Professor and Dean of General Affairs, Department of Transportation Management, Tamkang University President, Chinese Institute of Transportation Director, Eastern Asia Society for Transportation Studies, EASTS Supervisor, Taipei Rapid Transit Corp. Director, Vehicle Safety Certification Center Director, Taipei Traffic Foundation Director, Jing Chuan Child Safety Foundation Standing Director, Taipei Society for Traffic Safety Standing Director, China Road Federation Director, The General Association of the Scouts of China	No	Non	No

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Sharehold- ing by Nominee Arrangem- ent		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Sh ar es	%			Titl e	Na me	Rel ati on
Inde- pend- ent Dir- ector	Ting, Tin-Yu	R.O.C.	Male	06/26/2015	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Vice Mayor, Taipei City Government Consultant, USC Market Research Corp. Chief Consultant, Gallup Market Research Corp., Taiwan Chairman, Globalview Ltd. Independent Director, Fubon Life Insurance Co., Ltd. Independent Director, Fubon Insurance Co., Ltd. Independent Director, Fubon Financial Holding Co., Ltd. Director, Taipei Smart Card Corporation Associate Professor, Department of Sociology, National Taiwan University Chairman, Public Opinion Research Foundation Assistant Professor, Kansas State University, U.S.A. Associate Professor, Department of Sociology, National Chengchi University BA, Department of Sociology, National Taiwan University Ph.D., Department of Sociology, University of Michigan, U.S.A.	Member, Remuneration Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd. Associate Professor, Department of Urban Industrial Management and Marketing, University of Taipei	No	Non	No

Note 1: On June 24, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 2: On July 6, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 3: On August 9, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 4: On July 13, 2015, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 5: On July 26, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.

Major shareholders among institutional shareholders

Name of Institutional Shareholders	Major Shareholders
China Aviation Development Foundation	Non-corporate organization, not applicable
National Development Fund, Executive Yuan	Non-corporate organization, not applicable
Chunghwa Telecom Co., Ltd.	Ministry of Transportation and Communications (35.29%), Fubon Life Insurance Co., Ltd. (5.79%), Nan Shan Life Insurance Co., Ltd. (3.48%), JP Morgan Chase Chunghwa Telecom Depository Receipt Account (3.43%), CTBC Bank Chunghwa Telecom Employee Stock Ownership Trust Property Account (3.28%), Cathay Life Insurance Co., Ltd. (2.77%), Shin Kong Life Insurance Co., Ltd. (1.81%), China Life Insurance Co., Ltd. (1.75%), Chunghwa Post Co., Ltd. (1.68%), Labor Insurance Fund (1.09%)

Major shareholders among Company's major institutional shareholders

Name of Institutional Shareholders	Major Shareholders
Ministry of Transportation and Communications	Not Applicable
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
Nan Shan Life Insurance Co., Ltd.	Ruenchen Holdings Co., Ltd. investment trust account held under the Custody of First Bank (76.46%), Ruenchen Investment Holding Co. (14.16%), Du Ying-Tzyong (3.25%)
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd. (100%)
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd. (100%)
China Life Insurance Co., Ltd.	KGI Securities Co., Ltd. (9.74%), Saudi Arabian Monetary Agency account held under the custody of JP Morgan Chase Bank N.A. Taipei Branch (4.64%), Government of Singapore Investment Corp. under the custody of Citibank (3.24%), New York City Group Trust Investment Account held under the custody of Deutsche Bank Taipei Branch (2.41%), Videoland Television Network Co., Ltd. (2.35%), Labor Pension Fund (New Scheme) (1.97%), Abu Dhabi Investment Authority account held under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.83%), Chase in trust for Invesco Ireland Asian Equity Core Fund (1.79%), Chase in trust for T. Rowe Price Emerging Markets Stock (1.59%), Fubon Life Discretionary Investment Account with SinoPac SITC (1.38%)
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications (100%)

(Note) Source: Chunghwa Telecom 2016 Shareholder Meeting Annual Report.

Professional qualifications and independence analysis of directors

Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Name														
Ho, Nuan-Hsuan	✓	-	✓	✓	-	✓	✓	✓	✓	✓	-	✓	✓	-
Hsieh, Su-Chien	-	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	-
Charles C.Y. ,Chen	✓	-	✓	✓	-	-	✓	✓	-	✓	✓	✓	-	
Jong, Jia-shi	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	-	
Cheng, Chuan-Yi	-	-	✓	✓	-	-	✓	✓	✓	✓	✓	✓	-	
Ting, Kwang-Hung	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	
Chen, Han-Ming	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	
Lee, Kuo- Fu	-	✓	✓	-	-	✓	✓	✓	✓	✓	✓	✓	-	
Lin, Su-Ming	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	1(Note 2)	
Huang, Hsiu-Gu	-	-	✓	✓	-	✓	✓	-	✓	✓	✓	✓	-	
Chung, Lo-Min	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	
Luo, Hsiao-Hsien	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	
Ting, Tin-Yu	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	

Note 1: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during their term in office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note 2: Served as independent director of Nan Shan Life Insurance Co., Ltd. since June 26, 2013.

3.2.2 Management Team

APR 24, 2017

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
President	Hsieh, Su-Chien	R.O.C.	Male	06/24/2016	48,517	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Air Cargo Terminal Ltd. General Manager, Australia Branch Senior Vice President of Marketing Bachelor's Degree from Soochow University	Chairman, Mandarin Airlines, Ltd. Director, CAL Hotel Co., Ltd. Director, CAL-Asia Investment Inc. Director & President, CAL Park Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, CAL-Dynasty International, Inc. Director, Dynasty Properties Co., Ltd.	None	None	None	None
General Audit Office Auditor General	Chung, Chuar-Duan	R.O.C.	Male	12/26/2015	25,610	0.00%	0	0.00%	0	0.00%	Vice President, Investment Development & Management Office General Manager, Singapore Branch Bachelor's Degree from Soochow University	Supervisor, Taiwan Airport Service Co., Ltd. Supervisor, China Pacific Catering Services Ltd. Supervisor, CAL Park Co., Ltd. Supervisor, Taiwan Aircraft Maintenance and Engineering Co., Ltd. Supervisor, CAL Hotel Co., Ltd.	None	None	None	None
General Audit Office Deputy Auditor General	Fang, Juo-Ling	R.O.C.	Female	09/01/2014	8,000	0.00%	0	0.00%	0	0.00%	Auditor General, Taoyuan International Airport Services Co., Ltd. Senior Auditor, General Audit Office Master's Degree from Georgia State University, U.S.A	Supervisor, Sabre Travel Network (Taiwan) Ltd.	None	None	None	None
Senior Vice President (VF)	Chang, Young	R.O.C.	Male	06/24/2016	0	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Airport Services Co., Ltd. Concurrently, President, Taiwan Airport Services Co., Ltd. President, Taoyuan International Airport Services Co., Ltd. Bachelor's Degree from Fu Jen University	Chairman, Kaohsiung Airport Catering Services Ltd. Chairman, Taiwan Airport Service Co., Ltd. Supervisor, Taiwan Air Cargo Terminal Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, Tiger Taiwan Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Arport Air Terminal (Xiamen) Co., Ltd. Director, Arport Air Cargo Service(Xiamen) Co., Ltd. Director, Taiwan Aircraft Maintenance and Engineering Co., Ltd.	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Senior Vice President (VV)	Chang, Chih-Chieh	R.O.C.	Male	08/11/2016	96,553	0.00%	0	0.00%	0	0.00%	Vice President, Passenger Sales Div. General Manager, New York Branch Bachelor's Degree from Tunghai University	Director, CAL Hotel Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Taiwan Air Cargo Terminal Ltd.	None	None	None	None
Senior Vice President (VO)	Kao, Shing-Hwang	R.O.C.	Male	06/01/2011	62,809	0.00%	0	0.00%	0	0.00%	Vice President, Flight Operations Div. Assistant Vice President, Flight Operations Div. Bachelor's Degree from National Cheng Kung University	Director, Mandarin Airlines, Ltd. Director, CAL Hotel Co., Ltd.	None	None	None	None
Senior Vice President (VE)	Huang, Chwen-Jiun	R.O.C.	Male	03/01/2014	105,233	0.00%	27,281	0.00%	0	0.00%	Vice President, Maintenance Div. Vice President, Engineering Div. Bachelor's Degree from Tamkang College	Chairman, Taiwan Aircraft Maintenance and Engineering Co., Ltd. Director, Mandarin Airlines, Ltd. Director, China Aircraft Services Limited. Director, Taikoo (Xiamen) Landing Gear Services Co., Ltd. Director, Taikoo Spirit Aerosystems (Jinjiang) Composite Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None	None
Senior Vice President (VW)	Lo, Ya-Mei	R.O.C.	Female	06/24/2016	0	0.00%	0	0.00%	0	0.00%	Manager, China Pacific Catering Services Ltd. Confidential Consultant, Executive Yuan Master's Degree from National Taiwan University	Director & President, CAL-Asia Investment Inc. Director, CAL Hotel Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None	None
Acting Vice President Human Resources Div.	Yeah, Shao-Ting	R.O.C.	Male	01/03/2017	868	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Human Resources Div. General Manager, Human Resources & Administration Dept., Maintenance Div. Bachelor's Degree from Chinese Culture University	None	None	None	None	None
Vice President Flight Operations Div.	Lai, Ming-Hui	R.O.C.	Male	03/01/2016	19,127	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Safety Office Assistant Vice President, Flight Operations Div. Bachelor's Degree from National Cheng Kung University	None	None	None	None	None
Assistant Vice President Flight Operations Div.	Liao, Wei-Chih	R.O.C.	Male	12/01/2014	0	0.00%	0	0.00%	0	0.00%	General Manager, Standardization Department, Flight Operations Div. Chief, Crew Evaluation Section, Standardization Department, Flight Operations Div. Master's Degree from RMIT University	None	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President Flight Operations Div.	Hong, Tsu-Kuang	R.O.C.	Male	06/01/2016	11,816	0.00%	0	0.00%	0	0.00%	General Manager, Administration Department, Flight Operations Div. General Manager, Food & Beverage Services Department, In-Flight Service Supply Div. Bachelor's Degree from Soochow University	None	None	None	None	None
Vice President System Operation Control Div.	Chen, Shann-Juan	R.O.C.	Male	01/16/2016	12,066	0.00%	0	0.00%	0	0.00%	General Manager, Thailand Branch Assistant Vice President, System Operation Control Div. Associate's Degree from Shih Hsin College	None	None	None	None	None
Assistant Vice President System Operation Control Div	Jeng, Jong-Shinn	R.O.C.	Male	08/01/2013	1,494	0.00%	0	0.00%	0	0.00%	General Manager, Base Maintenance Department, Maintenance Div. General Manager, Line Operation Department, Maintenance Div. Associate's Degree from Lung Hwa College of Science and Technology	None	None	None	None	None
Vice President Passenger Sales Div.	Wang, Chen-Min	R.O.C.	Male	12/10/2016	35,621	0.00%	0	0.00%	0	0.00%	General Manager, Korea Branch Assistant General Manager, Los Angeles Branch Bachelor's Degree from Feng Chia University	Director, Dynasty Holidays, Inc. Director, Sabre Travel Network (Taiwan) Ltd. Director, Everest Investment Holdings Ltd. Director, Yestrip Co., Ltd.	None	None	None	None
Assistant Vice President Passenger Sales Div	Peng, Pao Chu	R.O.C.	Female	08/20/2016	8,434	0.00%	0	0.00%	0	0.00%	General Manager, San Francisco Branch General Manager, Yestrip Travel Service Bachelor's Degree from National Taiwan University	None	None	None	None	None
Vice President Passenger Marketing Div.	Tsao, Jyh-Fen	R.O.C.	Female	11/08/2013	9,522	0.00%	16,948	0.00%	0	0.00%	Assistant Vice President, Corporate, Development Office General Manager, International Affairs & Alliances Department, Corporate Development Office Master's Degree from Surrey University, UK	Director, Tiger Taiwan Co., Ltd. Director, Dynasty Holidays, Inc.	None	None	None	None
Assistant Vice President Passenger Marketing Div.	Kung, Yuan-Jau	R.O.C.	Male	12/29/2014	9,062	0.00%	0	0.00%	0	0.00%	General Manager, E-Commerce Department, Passenger Marketing Div. General Manager, Marketing System Department, Information Management Div. Master's Degree from Tatung College of Engineering	None	None	None	None	None
Vice President Finance Div.	Chen, I-Chieh	R.O.C.	Male	02/16/2017	6,161	0.00%	0	0.00%	0	0.00%	Vice President, Investment Development & Management Div. General Manager, Vietnam Branch Concurrently, General Manager, Hanoi Branch Master's Degree from National Taipei University	Supervisor, Hwa Hsia Company Ltd. Supervisor, CAL Hotel Co., Ltd. Supervisor, Mandarin Airlines, Ltd. Supervisor, Arport Air Terminal (Xiamen) Co., Ltd. Supervisor, Arport Air	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
												Cargo Service(Xiamen) Co., Ltd. Supervisor, China Pacific Laundry Services Ltd.				
Assistant Vice President Finance Div.	Huang, Tze-Chi	R.O.C.	Male	05/04/2013	110	0.00%	0	0.00%	0	0.00%	General Manager, Bali Branch General Manager, Chengdu Branch Bachelor's Degree from Tamkang University.	Supervisor, Global Sky Express Ltd. Supervisor, Yestrip Co., Ltd.	None	None	None	None
Assistant Vice President Finance Div.	Ho, Hui-Fen	R.O.C.	Female	11/28/2013	0	0.00%	0	0.00%	0	0.00%	General Manager, General Accounting Department, Finance Div. General Manager, Business Management Department, Business Development Office Master's Degree from Soochow University	Supervisor, Kaohsiung Airport Catering Services Ltd. Supervisor, Dynasty Holidays, Inc. Supervisor, Taiwan Aircraft Maintenance and Engineering Co., Ltd.	None	None	None	None
Assistant Vice President Finance Div.	Lin, Ming-Hsiu	R.O.C.	Female	03/14/2017	54,792	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Investment Development & Management Div. Assistant Vice President, Marketing Services Div. Master's Degree from Tamkang University	None	None	None	None	None
Vice President Corporate Safety Office	Chen, I-Ko	R.O.C.	Male	03/01/2016	23,541	0.00%	0	0.00%	0	0.00%	Vice President, Safety Office, Mandarin Airlines, Ltd. Assistant Vice President, Corporate Safety Office Associate's Degree from United College of Engineering	None	None	None	None	None
Assistant Vice President Corporate Safety Office	Chou, Jyh-Shyan	R.O.C.	Male	09/22/2016	9,171	0.00%	7,382	0.00%	0	0.00%	Vice President, Taiwan Airport Services Co., Ltd. Assistant Vice President, System Operation Control Div. Master's Degree from RMIT University, AU	None	None	None	None	None
Assistant Vice President Corporate Safety Office	Tsai, Chih Hung	R.O.C.	Male	01/01/2015	0	0.00%	0	0.00%	0	0.00%	General Manager, System Engineering Department, Engineering Div. General Manager, Hanger Eri Maintenance Department, Maintenance Div. Master's Degree from Manchester University, UK	None	None	None	None	None
Vice President Legal & Insurance Div.	Chien, Feng-Nien	R.O.C.	Male	01/03/2017	0	0.00%	0	0.00%	0	0.00%	Director Of Legal Office, Taiwan Financial Asset Service Corporation Head Prosecutor, Taichung Prosecutors Office Master's Degree from National Taiwan Ocean University	None	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice President Corporate Communications Office	Peng, Long-Min	R.O.C.	Male	08/16/2016	32,843	0.00%	0	0.00%	0	0.00%	Chief Representative, China And North China Concurrently, General Manager, Beijing Office Assistant Vice President, Ground Services Div. Bachelor's Degree from Chung Yuan Christian University	None	None	None	None	None
Assistant Vice President Corporate Communications Office	Lu, Shwu-Huoy	R.O.C.	Female	12/01/2014	22,605	0.00%	0	0.00%	0	0.00%	General Manager, Next Generation Travel Experience Program, Corporate Development Office General Manager, Customer Service Call Center, Taipei Branch Master's Degree from National Central University	None	None	None	None	None
Assistant Vice President Corporate Communications Office	Yu, Yau	R.O.C.	Female	10/16/2016	34,154	0.00%	0	0.00%	0	0.00%	General Manager, Corporate Affairs Department, Corporate Communications Office Assistant General Manager, Cabin Crew Management Department, Cabin Crew Div. Master's Degree from National Sun Yat-sen University	None	None	None	None	None
Vice President Administration Div.	Ku, Yueh-Han	R.O.C.	Male	08/16/2016	0	0.00%	0	0.00%	0	0.00%	President, Taiwan Airport Services Co., Ltd. Vice President, Investment Development & Management Div. Master's Degree From United States International University	Director, Hwa Hsia Company Ltd. Director, CAL Park Co., Ltd.	None	None	None	None
Assistant Vice President Administration Div.	Chen, Jo-Ching	R.O.C.	Female	10/01/2015	0	0.00%	0	0.00%	0	0.00%	General Manager, Services Items Planning Department, In-Flight Service Supply Div. Mast Auditor, General Audit Office Master's Degree From University Of Michigan	None	None	None	None	None
Vice President Information Management Div.	Lu, Shih-Ming	R.O.C.	Male	05/01/2015	24,917	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Next Generation Travel Experience Program, Corporate Development Office Assistant Vice President, Ground Services Div. Master's Degree From National Chengchi University	Director, Sabre Travel Network (Taiwan) Ltd.	None	None	None	None
Assistant Vice President, Information Management Div.	Liu, Duan-Shiuh	R.O.C.	Male	04/20/2017	111,068	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Ground Services Div. General Manager, Information Planning Department, Information Management Div. Master's Degree From National Taipei University Of Technology	None	None	None	None	None
Vice President Cabin Crew Div.	Wei, Yih-Jiun	R.O.C.	Male	08/16/2016	39,934	0.00%	0	0.00%	0	0.00%	General Manager, China Pacific Catering Services Ltd. Master's Degree from National Sun Yat-sen University	Director, China Pacific Laundry Services Ltd.	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates	
					Shares	%	Shares	%	Shares	%			Title	Name	Relation		
Assistant Vice President Cabin Crew Div.	Pan, Wen-Tsung	R.O.C.	Female	03/01/2014	298	0.00%	0	0.00%	0	0.00%	General Manager, Cabin Crew Management, Cabin Crew Div. General Manger, Media Affairs Department, Corporate Communications Office Master's Degree from National Chengchi University	None	None	None	None	None	
Vice President Corporate Development Office	Chang, Ming-Way	R.O.C.	Male	12/01/2014	30,512	0.00%	0	0.00%	0	0.00%	Vice President, Ground Services Div. Assistant Vice President, New PSS Team, Passenger Sales Div. Bachelor's Degree from Fu Jen University	Director, Tiger Taiwan Co., Ltd. Director, Taiwan Airport Service Co., Ltd. Director, Global Sky Express Ltd. Director, Dynasty Hotel of Hawaii, Inc. Director, Dynasty Properties Co., Ltd. Director, China Aircraft Services Limited. Director, Taiwan Air Cargo Terminal Ltd.	None	None	None	None	None
Assistant Vice President Corporate Development Office	Tung, Wei	R.O.C.	Male	03/01/2014	8,937	0.00%	4,049	0.00%	0	0.00%	Marketing Director, The Americas Assistant to Vice President, Corporate Development Div. Master's Degree from National Chengchi University	None	None	None	None	None	
Assistant Vice President Corporate Development Office	Wang, Wei	R.O.C.	Female	02/02/2017	10,298	0.00%	0	0.00%	0	0.00%	General Manager, Austria Branch Assistant Vice President, Finance Div. Master's Degree from George Washington University, U.S.A.	None	None	None	None	None	
Vice President In-Flight Service Supply Div.	Liu, Shyh-Hwa	R.O.C.	Female	09/16/2016	33,627	0.00%	0	0.00%	0	0.00%	Assistant Vice President, In-Flight Service Supply Div. General Manager, Cabin Crew Management Department, Cabin Crew Div. Master's Degree from National Taipei University	Chairman, China Pacific Laundry Services Ltd. Director, China Pacific Catering Services Ltd. Director, Kaohsiung Airport Catering Services Ltd.-Director	None	None	None	None	None
Assistant Vice President In-Flight Service Supply Div.	Kao, Shu-Chuan	R.O.C.	Female	08/16/2016	7,879	0.00%	0	0.00%	0	0.00%	General Manager, Purchasing Department Administration Div. General Manager, Personnel Administration Department, Human Resources Div. Associate's Degree from Ming Chuan College	None	None	None	None	None	
Vice President Ground Services Div.	Liu, Tsao-Yang	R.O.C.	Male	09/16/2016	60,488	0.00%	0	0.00%	0	0.00%	Chief Representative, South China Concurrently, General Manager, Guangzhou Office Assistant Vice President, Cabin Crew Div. Bachelor's Degree from Chinese Culture University	Director, China Pacific Laundry Services Ltd.	None	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates	
					Shares	%	Shares	%	Shares	%			Title	Name	Relation		
Assistant Vice President Ground Services Div.	Hsiao, Kuo Chih	R.O.C.	Male	04/20/2017	0	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Information Management Div. General Manager, Sapporo Branch Bachelor's Degree from National Cheng Kung University	None	None	None	None	None	
Assistant Vice President Ground Services Div.	Chu, Te-Hsiu	R.O.C.	Male	09/16/2016	43,382	0.00%	8,277	0.00%	0	0.00%	Station Manager, Germany Branch Station Manager, Hong Kong Branch Bachelor's Degree from Chinese Culture University	None	None	None	None	None	
Vice President Cargo Sales, Marketing & Services Div.	Liu, Der-Chuan	R.O.C.	Male	10/01/2016	172	0.00%	0	0.00%	0	0.00%	Vice President, Cargo Sales & Marketing Div. Vice President, Cargo Services & Logistics Div. Bachelor's Degree from Fu Jen University	Director, Taiwan Air Cargo Terminal Ltd. Director, Hwa Hsia Company Ltd. Director, Science Park Logistics Co., Ltd. Director, Global Sky Express Ltd. Director, Eastern United International Logistics (Holdings) Ltd.	None	None	None	None	None
Assistant Vice President Cargo Sales, Marketing & Services Div.	Hsueh, Po-Wen	R.O.C.	Male	10/01/2016	328	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Cargo Sales & Marketing Div. General Manager, Cargo Marketing & Planning Department, Cargo Sales & Marketing Div. Bachelor's Degree from Chinese Culture University	None	None	None	None	None	
Assistant Vice President Cargo Sales, Marketing & Services Div.	Lin, Hsiao-Feng	R.O.C.	Male	10/01/2016	506	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Cargo Services & Logistic Div. Assistant Vice President, Cargo Sales & Marketing Div. Master's Degree from National Chiao Tung University	None	None	None	None	None	
Vice President Maintenance Div.	Wang, Houng	R.O.C.	Male	11/16/2014	12,069	0.00%	0	0.00%	0	0.00%	Vice President, Engineering Div. Vice President, Quality Assurance Div. Bachelor's Degree from Feng Chia University	Director, Hwa Hsia Company Ltd. Director, Taiwan Aircraft Maintenance and Engineering Co., Ltd.	None	None	None	None	None
Assistant Vice President Maintenance Div.	Li, Chih-Wei	R.O.C.	Male	02/18/2014	10,295	0.00%	0	0.00%	0	0.00%	General Manager, Line Operation Department, Maintenance Div. General Manager, Audit Department, Quality Assurance Office Master's Degree from Kainan University	None	None	None	None	None	
Vice President Quality Assurance Div.	Lee, Jung-Hui	R.O.C.	Male	02/16/2014	10,298	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Maintenance Div. General Manager, Base Maintenance Department, Maintenance Div. Master's Degree from Tatung University	Director&President, Taiwan Aircraft Maintenance and Engineering Co., Ltd.	None	None	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Employee stock option certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice President Engineering Div.	Sun, Jia-Min	R.O.C.	Male	11/16/2014	62,602	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Safety Office. Vice President, Engineering Div. Master's Degree From National Taiwan University Of Science And Technology	Director, Asian Compressor Technology Services Co., Ltd. Director, Taiwan Aircraft Maintenance and Engineering Co., Ltd.	None	None	None	None
Vice President Taiwan	Tong, Huai-Ming	R.O.C.	Female	08/16/2016	50,878	0.00%	15,946	0.00%	0	0.00%	Vice President, Cabin Crew Div. General Manager, Kaohsiung Branch Graduated From Taipei First Girls High School	Director, Sabre Travel Network (Taiwan) Ltd. Director, Yestrip Co., Ltd.	None	None	None	None
Vice President The Americas	Lee, Hsien-Kuang	R.O.C.	Male	12/16/2014	25,000	0.00%	0	0.00%	0	0.00%	Vice President, Europe Concurrently, General Manager, Netherland Branch Assistant Vice President, Passenger Sales Div. Bachelor's Degree from National Taiwan Ocean College	Chairman, Dynasty Hotel of Hawaii, Inc. Chairman & President, Dynasty Properties Co., Ltd. Director & President, CAL-Dynasty International, Inc.	None	None	None	None
Vice President Japan	Shih, Ping-Huang	R.O.C.	Male	11/11/2013	155,294	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Airport Services Co., Ltd. Senior Vice President of Service Bachelor's Degree from National Chengchi University	Chairman/President, Dynasty Holidays, Inc.	None	None	None	None
Vice President Europe	Ouyang, John	R.O.C.	Male	12/29/2014	13,903	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Passenger Sales Div. General Manager, Indonesia Concurrently, General Manager, Surabaya Branch Associate's Degree from St. John's and Mary's Institute Technology	None	None	None	None	None
Vice President Mainland China	Lo, How-Min	R.O.C.	Male	09/08/2016	80,552	0.00%	0	0.00%	0	0.00%	Chief Representative, East China Concurrently, General Manager, Shanghai Branch Vice President, Taiwan Concurrently, General Manager, Taipei Branch Associate's Degree from Chihlee College	None	None	None	None	None
Vice President Oceania	Wu, Wen-Kuo	R.O.C.	Male	11/01/2015	12,167	0.00%	0	0.00%	0	0.00%	Auditor General, General Audit Office Chairman, Sabre Travel Network (Taiwan) Ltd. Concurrently, President, Sabre Travel Network (Taiwan) Ltd. Master's Degree from National Taiwan University	Director, Sabre Travel Network (Taiwan) Ltd.	None	None	None	None

Note: Company presidents, senior vice presidents, vice presidents, assistant vice presidents, and department and branch general managers have not worked for the Company's currently designated accounting firm or affiliated enterprises within the specified period and do not hold Company stock under the name of a different person.

3.2.3 Remuneration of Directors, President, and Vice President

Remuneration of Directors

Title	Name (Note 1)	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10)	
		Base Compensation (A) (Note 2)		Severance Pay (B)		Bonus to Directors (C) (Note 3)		Allowances (D) (Note 4)		CAL	Consolidated Subsidiaries of CAL (Note 7)
		CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)		
Chairman	Ho, Nuan-Hsuan										
Chairman	Sun, Huang-Hsiang										
Director	Hsieh, Su-Chien										
Director	Charles C.Y. ,Chen										
Director	Ting, Kwang-Hung										
Director	Jong, Jia-shi										
Director	Lee, Kuo- Fu										
Director	Cheng, Chuan-Yi										
Director	Chen, Han-Ming										
Director	Lin, Su-Ming	6,979	6,979	8,223	8,223	0	0	5,322	5,596	3.59%	3.64%
Director	Huang, Hsiu-Gu										
Director	Chang, Yu-Hern										
Director	Lai, Ching-Chyi										
Director	Lee, Cho-Ping										
Director	Ko, Tso-Liang										
Independent Director	Chung, Lo-Min										
Independent Director	Luo, Hsiao-Hsien										
Independent Director	Ting, Tin-Yu										

Note 1: Aside from independent directors, all other directors are representatives of the Company's juridical person shareholders China Aviation Development Foundation, National Development Fund (Executive Yuan), Chunghwa Telecom Co., Ltd. On June 24, 2016, China Aviation Development Foundation reassigned Mr. Ho, Nuan-Hsuan to serve as its juridical person representative and on the same date he was elected chairman of the Board of Directors. On July 6, 2016, Mr. Hsieh, Su-Chien was reassigned as juridical person representative. On July 26, 2016, Mr. Cheng, Chuan-Yi and Mr. Chen, Han-Ming were reassigned as juridical person representatives. On August 9, 2016, Mr. Jong, Jia-shi was reassigned as juridical person representative.

Note 2: Refers to director remuneration over the past year (includes director salary, additional compensation, severance pay, various bonuses, incentive pay).

Note 3: As stipulated in the Company's Articles of Association, directors are not awarded bonuses.

Note 4: Refers to relevant business expenses incurred by directors (including travel expenses, special disbursements, various allowances, living quarters, company car). If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT\$970,000.

Note 5: Refers to salary, bonuses, and allowances received by directors who are also employed by the Company (including as president, vice president, other management, or regular employee) over the past year and includes salary, additional compensation, severance pay, various bonuses, incentive pay, travel expenses, special disbursements, various allowances, living quarters, and company car. If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT\$875,000. As stipulated in IFRS 2, Share Based Payments including obtaining employee stock options and employee restricted stock awards, and participation in a cash capital increase shall be calculated as remuneration.

* The remuneration content disclosed in the table is different than required under the Income Tax Act. The content is provided for information disclosure, not tax purposes.

Unit: NT\$ thousands Dec 31, 2016

Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) (Note 10)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary (Note 11)
Salary, Bonuses, and Allowances (E)(Note 5)		Severance Pay (F)		Employees' Compensation (G)(Note 6)				CAL	Consolidated Subsidiaries of CAL (Note 7)	
CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL		Consolidated Subsidiaries of CAL (Note 7)				
				Cash	Stock	Cash	Stock			
13,047	13,458	7,056	7,056	152	0	152	0	7.14%	7.26%	0

Note 6: Refers to employee compensation (including stock or cash) received by directors who are also employed by the Company (including as president, vice president, other management, or regular employee) over the past year, and the amount of employee compensation approved for distribution by the Board for the most recent year must be disclosed. On January 17, 2017, the Company's Board of Directors approved the 2016 Employee Compensation Proposal.

Note 7: The total remuneration provided by the Company and subsidiaries to directors is disclosed per the consolidated financial statement.

Note 8: The remuneration distributed to each member of the Company's Board is disclosed as a range and the names of directors are disclosed by range of compensation received.

Note 9: The total remuneration provided by the Company and subsidiaries to directors is disclosed per the consolidated financial statement and names of directors are disclosed by range of compensation received.

Note 10: Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company's 2016 individual financial statement net income (after tax) totaled NT\$571,540,000.

Note 11: (1) Compensation paid to directors from an invested company other than a Company subsidiary.

(2) Compensation refers to pay, bonuses (including bonuses to employees, directors, or supervisors), or expenses paid in the execution of business to Company directors who serve as director, supervisor, or manager of an invested company other than a Company subsidiary.

(3) Compensation paid to directors from an invested company other than a Company subsidiary is included in Column I (Consolidated Subsidiaries of CAL) of the Director Remuneration by Compensation Level Table.

Note 12: (1) Aside from Chairman Ho, Nuan-Hsuan, Chairman Sun, Huang-Hsiang, Director Hsieh, Su-Chien, and Director Chang, Yu-Hern, all other directors received a travel allowance.

(2) Director Ting, Kwang-Hu, Director Lee, Kuo- Fu, Director Jong, Jia-shi, and Director Ko, Tso-Liang donated the travel allowances received to the China Airlines Employee Union.

(3) The directors who also serve as employees of the Company are Director Hsieh, Su-Chien; Director Jong, Jia-shi; Director Lee, Kuo- Fu; Director Chang, Yu-Hern; and Director Ko, Tso-Liang. Of these, Mr. Chang, Yu-Hern resigned from his position on July 6, 2016 and Mr. Ko, Tso-Liang resigned from his position on August 9, 2016.

Director Remuneration by Compensation Level

Range of Remuneration	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	CAL (Note 8)	Consolidated Subsidiaries of CAL (Note 9) H	CAL (Note 8)	Consolidated Subsidiaries of CAL (Note 9) I
Under NT\$2,000,000	Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Lee, Kuo- Fu; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Chang, Yu-Hern; Lai, Ching-Chyi; Hsieh, Su-Chien; Lee, Cho-Ping; Ko, Tso-Liang; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Lee, Kuo- Fu; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Chang, Yu-Hern; Lai, Ching-Chyi; Hsieh, Su-Chien; Lee, Cho-Ping; Ko, Tso-Liang; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Lai, Ching-Chyi; Lee, Cho-Ping; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Lai, Ching-Chyi; Lee, Cho-Ping; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu
NT\$2,000,001 ~ NT\$5,000,000	Ho, Nuan-Hsuan	Ho, Nuan-Hsuan	Ho, Nuan-Hsuan; Hsieh Su-Chien; Chang, Yu-Hern	Ho, Nuan-Hsuan; Hsieh Su-Chien; Chang, Yu-Hern
NT\$5,000,001 ~ NT\$10,000,000	-	-	Lee, Kuo- Fu; Ko, Tso-Liang	Lee, Kuo- Fu; Ko, Tso-Liang
NT\$10,000,001 ~ NT\$15,000,000	Sun, Huang-Hsiang	Sun, Huang-Hsiang	Sun, Huang-Hsiang	Sun, Huang-Hsiang
Total	18	18	18	18

President and Senior Vice President Remuneration

Title	Name (Note 1)	Salary (A) (Note 2)		Severance Pay (B)		Bonuses and Allowances (C) (Note 3)	
		CAL	Consolidated Subsidiaries of CAL (Note 5)	CAL	Consolidated Subsidiaries of CAL (Note 5)	CAL	Consolidated Subsidiaries of CAL (Note 5)
President	Hsieh, Su-Chien (Note 10)	19,646	19,646	26,409	26,409	7,730	8,856
President	Chang, Yu-Hern (Note 10)						
Senior Vice President	Lo, Ya-Mei (Note 11)						
Senior Vice President	Kao, Shing-Hwang						
Senior Vice President	Chang, Chih-Chieh (Note 12)						
Senior Vice President	Huang, Chwen-Jiun						
Senior Vice President	Chang, Young (Note 13)						
Senior Vice President	Yu, Chien-Pao (Note 14)						
Senior Vice President	Tung, Hsiao-Hsing (Note 15)						
Senior Vice President	Yang, Steve Chen (Note 16)						

President and Senior Vice President Remuneration by Compensation Level

Range of Remuneration	Name of President and Senior Vice President	
	CAL (Note 6)	Consolidated Subsidiaries of CAL (Note 7)E
Under NT\$2,000,000	Lo, Ya-Mei; Chang, Chih-Chieh; Tung, Hsiao-Hsing	Lo, Ya-Mei; Chang, Chih-Chieh; Tung, Hsiao-Hsing
NT\$2,000,001 ~ NT\$5,000,000	Hsieh, Su-Chien; Chang, Yu-Hern; Huang, Chwen-Jiun; Chang, Young	Hsieh, Su-Chien; Chang, Yu-Hern; Huang, Chwen-Jiun; Chang, Young
NT\$5,000,001 ~ NT\$10,000,000	Kao, Shing-Hwang	Kao, Shing-Hwang
NT\$10,000,001 ~ NT\$15,000,000	Yu, Chien-Pao	Yu, Chien-Pao
NT\$15,000,001 ~ NT\$30,000,000	Yang, Steve Chen	Yang, Steve Chen
Total	10	10

Note 1: President Hsieh, Su-Chien and President Chang, Yu-Hern also concurrently serve as directors. Their remuneration is listed above and also in the Remuneration of Directors table.

Note 2: Refers to president and senior vice president salary, additional compensation, and severance pay over the past year.

Note 3: Refers to various bonuses, incentive pay, travel expenses, special disbursements, various allowances, living quarters, and company car distributed to presidents and senior vice presidents over the past year. If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT\$4,636,000. As stipulated in IFRS 2, Share Based Payments including obtaining employee stock options and employee restricted stock awards, and participation in a cash capital increase shall be calculated as remuneration.

Note 4: Refers to employee compensation (including stock or cash) approved for distribution by the Board to presidents and senior vice presidents over the past year. Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. On January 17, 2017, the Company's Board of Directors approved the 2016 Employee Compensation Proposal.

* The remuneration content disclosed in the table is different than required under the Income Tax Act. The content is provided for information disclosure, not tax purposes.

Unit: NT\$ thousands December 31, 2016

Employees' Compensation (D) (Note 4)				Ratio of total compensation (A+B+C+D) to net income (%) (Note 8)		Compensation paid to the Presidents and Senior Vice Presidents from an Invested Company Other Than the Company's Subsidiary (Note 9)
CAL		Consolidated Subsidiaries of CAL (Note 5)		CAL	Consolidated Subsidiaries of CAL (Note 5)	
Cash	Stock	Cash	Stock			
283	0	283	0	9.46%	9.66%	225

Note 5: The total remuneration provided by the Company and subsidiaries to Company presidents and senior vice presidents is disclosed per the consolidated financial statement.

Note 6: The remuneration distributed to each president and senior vice president is disclosed as a range and the names of the presidents and senior vice presidents are disclosed by range of compensation received.

Note 7: The total remuneration provided by the Company and subsidiaries to presidents and senior vice presidents is disclosed per the consolidated financial statement and names of the presidents and senior vice presidents are disclosed by range of compensation received.

Note 8: Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company's 2016 individual financial statement net income (after tax) totaled NT\$571,540,000.

Note 9: This column represents compensation paid to presidents and senior vice presidents from an invested company other than a Company subsidiary.

(1) Compensation paid to presidents and senior vice presidents from an invested company other than a Company subsidiary is included in Column E (Consolidated Subsidiaries of CAL) of President and Senior Vice President Remuneration by Compensation Level Table.

(2) Compensation refers to pay, bonuses (including bonuses to employees, directors, or supervisors), or expenses paid in the execution of business to Company presidents and senior vice presidents who serve as director, supervisor, or manager of an invested company other than a Company subsidiary.

(3) Of the presidents and senior vice presidents, only Mr. Chang, Young, Mr. Yang, Steve Chen, and Mr. Yu, Chien-Pao received compensation from an invested company other than the Company's subsidiaries.

Note 10: Mr. Hsieh, Su-Chien assumed the position of President on June 24, 2016; Mr. Chang, Yu-Hern was dismissed from the position of President on June 24, 2016.

Note 11: Ms. Lo, Ya-Mei assumed the position of Senior Vice President on June 24, 2016.

Note 12: Mr. Chang, Cih-Chieh assumed the position of Senior Vice President on August 11, 2016.

Note 13: Mr. Chang, Young assumed the position of Senior Vice President on June 24, 2016.

Note 14: Mr. Yu, Chien-Pao was dismissed from the position of Senior Vice President on February 24, 2016.

Note 15: Mr. Tung, Hsiao-Hsing was dismissed from the position of Senior Vice President on June 27, 2016.

Note 16: Mr. Yang, Steve Chen was dismissed from the position of Senior Vice President on August 9, 2016.

Employees' Compensation of the Management Team

Unit: NT\$ thousands Dec 31, 2016

Title	Name	Employees' Compensation in Stocks	Employees' Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
President	Hsieh, Su-Chien (Assumed Post On 06/24/2016)	0	2,450	2,450	0.43%
Senior Vice President	Lo, Ya-Mei (Assumed Post On 06/24/2016)				
Senior Vice President	Kao, Shing-Hwang				
Senior Vice President	Chang, Chih-Chieh				
Senior Vice President	Huang, Chwen-Jiun				
Senior Vice President	Chang, Young (Assumed Post On 06/24/2016)				
Auditor General	Chung, Chuar-Duan				
Vice President	Chen, I-Chieh				
Vice President	Chen, I-Ko (Assumed Post On 03/01/2016)				
Vice President	Lai, Ming-Hui				
Vice President	Wang, Chen-Min (Assumed Post On 12/10/2016)				
Vice President	Tsao, Jyh-Fen				
Vice President	Liu, Der-Chuan				
Vice President	Peng, Long-Min (Assumed Post On 08/16/2016)				
Vice President	Ku, Yueh-Han (Assumed Post On 08/16/2016)				
Vice President	Wei, Yih-Jiun (Assumed Post On 08/16/2016)				
Vice President	Liu, Shyh-Hwa				
Vice President	Chen, Shann-Juan (Assumed Post On 01/16/2016)				
Vice President	Liu, Tsao-Yang (Assumed Post On 09/16/2016)				
Vice President	Chang, Ming-Way				
Vice President	Lu, Shih-Ming				
Vice President	Wang, Houng				
Vice President	Sun, Jia-Min				
Vice President	Lee, Jung-Hui				
Deputy Auditor General	Fang, Juo-Ling				
Assistant Vice President	Lin, Ming-Hsiu				
Assistant Vice President	Tsai, Chih Hung				
Assistant Vice President	Chou, Jyh-Shyan (Assumed Post On 09/22/2016)				
Assistant Vice President	Liao, Wei-Chih				
Assistant Vice President	Hong, Tsu-Kuang (Assumed Post On 06/01/2016)				
Assistant Vice President	Jeng, Jong-Shinn				
Assistant Vice President	Peng, Pao Chu (Assumed Post On 08/20/2016)				

Title	Name	Employees' Compensation in Stocks	Employees' Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
Assistant Vice President	Kung, Yuan-Jau				
Assistant Vice President	Hsueh, Po-Wen (Assumed Post On 09/01/2016)				
Assistant Vice President	Lin, Hsiao-Feng				
Assistant Vice President	Lu, Shwu-Huoy				
Assistant Vice President	Yu, Yau (Assumed Post On 07/16/2016)				
Assistant Vice President	Yeah, Shao-Ting				
Assistant Vice President	Chen, Jo-Ching				
Assistant Vice President	Ho, Hui-Fen				
Assistant Vice President	Huang, Tze-Chi				
Assistant Vice President	Pan, Wen-Tsung				
Assistant Vice President	Kao, Shu-Chuan (Assumed Post On 08/16/2016)				
Assistant Vice President	Liu, Duan-Shiuh				
Assistant Vice President	Chu, Te-Hsiu (Assumed Post On 09/16/2016)				
Assistant Vice President	Tung, Wei				
Assistant Vice President	Hsiao, Kuo Chih (Assumed Post On 01/01/2016)				
Assistant Vice President	Li, Chih-Wei				
Assistant Vice President	Chen, Wei-Tau (Dismissed On 01/06/2016)				
Vice President	Liu, Yah-Chuan (Dismissed On 01/11/2016)				
Vice President	Kuo, Hsin-Chang (Dismissed On 02/15/2016)				
Assistant Vice President	Tung, Da-Wei (Dismissed On 02/22/2016)				
Vice President	Young, Ding-Hwai (Dismissed On 02/23/2016)				
Senior Vice President	Yu, Chien-Pao (Dismissed On 02/29/2016)				
Vice President	Yang, Tzu-Pao (Dismissed On 05/20/2016)				
Assistant Vice President	Chen, Ming-Hui (Dismissed On 05/31/2016)				
Assistant Vice President	Chung, Kang (Dismissed On 05/31/2016)				
Assistant Vice President	Chen, Chung-Ming (Dismissed On 06/06/2016)				
Senior Vice President	Tung, Hsiao-Hsing (Dismissed On 06/27/2016)				
President	Chang, Yu-Hern (Dismissed On 06/24/2016)				
Senior Vice President	Yang, Steve Chen (Dismissed On 08/09/2016)				
Assistant Vice President	Tseng, Yu-Ping (Dismissed On 08/15/2016)				
Vice President	Tong, Huai-Ming (Dismissed On 08/16/2016)				
Vice President	Cheng, Tien-Yuan (Dismissed On 08/16/2016)				
Vice President	Chang, Cheng-Hao (Dismissed On 08/16/2016)				
Vice President	Yu, Chih (Dismissed On 09/20/2016)				

Title	Name	Employees' Compensation in Stocks	Employees' Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
Assistant Vice President	Fang, Yuan-Hua (Dismissed On 09/26/2016)				
Vice President	Huang, Ta-Fang (Dismissed On 12/21/2016)				
Vice President	Chung, Ming-Jyh (Dismissed On 01/03/2017)				
Assistant Vice President	Kuey, Kuo-Ching (Dismissed On 01/26/2017)				
Assistant Vice President	Teng, Shu Hua (Dismissed On 02/21/2017)				
Vice President	Chung, Wan-Chun (Dismissed On 03/01/2017)				
Assistant Vice President	Yeh, Jin-Fu (Dismissed On 03/13/2017)				
Assistant Vice President	Wei, Shih-Kai (Dismissed On 03/21/2017)				

Note 1: Individual names and titles are disclosed, but the distributed compensation is disclosed as a grand total.

Note 2: On January 17, 2017, the Company's Board of Directors approved the 2016 Employee Compensation Proposal.

Note 3: The management team includes:

- (1) Presidents and their equivalent
- (2) Vice presidents and their equivalent
- (3) Assistant vice presidents their the equivalent
- (4) Chief financial officers
- (5) Chief accounting officers
- (6) Other persons authorized to manage affairs and sign documents on behalf of the Company

3.2.4 Comparison of Remuneration for Directors, Presidents, and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Presidents, and Vice Presidents

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, presidents, and vice presidents of the Company, to their net income.

Title	2015		2016	
	CAL	Consolidated Subsidiaries of CAL	CAL	Consolidated Subsidiaries of CAL
Directors	0.44%	0.45%	7.14%	7.26%
Presidents and Senior Vice Presidents	0.57%	0.59%	9.46%	9.66%

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

As stipulated in the Articles of Association, the Board of Directors is authorized to set the chairman's remuneration in accordance with the Company's policies regarding manager compensation and based on the extent of his or her participation in Company operations. The travel allowances and remuneration of other directors are determined the Board in reference to the compensation levels provided by related-industries and public companies. In accordance with Article 29 of the Company Act, president and senior vice president remuneration is set by Board of Directors resolution based on Company employee salary related regulations. Bonuses and employee compensation are calculated based on the Company's overall operating performance and the employee's individual performance achievement rate.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors:

From January 1, 2016 through April 24, 2017, a total of nine meetings of the Board of Directors were held.

Director attendance is detailed below:

Title	Name (Note 1)	Attendance in Person	By Proxy	Attendance Rate (%) (Note 2)	Juridical Person Shareholder Represented	Remarks
Chairman	Ho, Nuan-Hsuan	6	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 06/24/2016 and elected Chairman on the same day
Director	Hsieh, Su-Chien	5	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/06/2016
Director	Charles C.Y., Chen	8	1	89%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015
Director	Ting, Kwang-Hung	6	3	67%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015
Director	Lee, Kuo- Fu	8	1	89%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/13/2015
Director	Cheng, Chuan-Yi	5	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/26/2016
Director	Chen, Han-Ming	5	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/26/2016
Director	Jong, Jia-shi	5	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 08/09/2016
Director	Lin, Su-Ming	9	0	100%	National Development Fund, Executive Yuan	Reappointed as juridical person director representative on 06/26/2015
Director	Huang, Hsiu-Gu	8	1	89%	Chunghwa Telecom Co., Ltd.	Reappointed as juridical person director representative on 06/26/2015
Independent Director	Chung, Lo-Min	9	0	100%	-	Reappointed as independent director on 06/26/2015
Independent Director	Luo, Hsiao-Hsien	9	0	100%	-	Reappointed as independent director on 06/26/2015
Independent Director	Ting, Tin-Yu	9	0	100%	-	Newly appointed as independent director on 06/26/2015
Chairman	Sun, Huang-Hsiang	3	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015 and dismissed on 06/24/2016
Director	Chang, Yu-Hern	3	1	75%	China Aviation Development Foundation	Appointed as juridical person director representative on 104/07/20 and dismissed on 07/06/2016
Director	Lee, Cho-Ping	4	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015 and dismissed on 07/26/2016
Director	Lai, Ching-Chyi	4	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015 and dismissed on 07/26/2016
Director	Ko, Tso-Liang	4	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015 and dismissed on

Other mentionable items:

1. In the operation of the Board of Directors, should one of the below situations occur, the Board Meeting date, session, content of the resolution, opinions of all independent directors, and the Company's response to said opinions shall be properly recorded:

(1) Matters listed in Article 14-3 of the Securities and Exchange Act.

Meeting Dates	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
5th meeting of the 20 th Board session held on March 25, 2016	Proposal to lift non-compete restrictions on Director Chang, Yu-Hern Issuance of 2016 domestic unsecured corporate bonds	None
7th meeting of the 20 th Board session held on August 11, 2016	Proposal to lift concurrent position non-compete restrictions on Chairman Ho, Nuan-Hsuan Proposal to lift concurrent position non-compete restrictions on Director Hsieh, Su-Chien Proposal to lift concurrent position non-compete restrictions on Senior Vice President Chang, Young Proposal to lift concurrent position non-compete restrictions on Senior Vice President Lo, Ya-Mei Proposal to lift concurrent position non-compete restrictions on Senior Vice President Chang, Chih-Chieh	
8th meeting of the 20 th Board session held November 10, 2016	Two 737-800 Passenger Airliner (B-18608/B-18607) Sales Proposal 2016 Proposal to lift concurrent position non-compete restrictions on Senior Vice President Chang, Young	
3rd extraordinary meeting of the 20 th Board session held on December 14, 2016	Tigerair Taiwan Equity Transaction Proposal	
9th meeting of the 20 th Board session held on January 17, 2017	Financial Division Vice President Position Change Proposal	
10th meeting of the 20 th Board session held on March 30, 2017	Issuance of domestic unsecured straight bond 2017 Revision to the Procedures Governing the Acquisition and Disposal of Assets	

(2) Other matters up for decision by the Board not listed in Article 14-3 of the Securities and Exchange Act, but that were opposed by independent directors or about which said directors have reservations and their opinion has been recorded or submitted in a written statement: None.

2. Should a director recuse him or herself from a decision about which he or she has a conflict of interest, the name of the director, contents of the resolution, reasons for recusal, and the results of the vote should be noted:

(1) 4th meeting of the 20th Board session held on January 15, 2016: Chairman and Manager 2015 Annual Bonus; Bonus and 2016 Salary Adjustment Proposal: Chairman Sun, Huang-Hsiang and Director Chang, Yu-Hern recused themselves.

Provisional Motion: Directors Ko, Tso-Liang and Lee, Kuo- Fu suggested the Company distribute incentive bonuses to improve employee morale and create more harmonious relations between labor and management. After their proposal, Directors Ko, Tso-Liang and Lee, Kuo- Fu refrained from discussions on the subject and abstained from voting on the proposal.

(2) 5th meeting of the 20th Board session held on March 25, 2016: Proposal to lift non-compete restrictions on Director Chang, Yu-Hern: Director Chang, Yu-Hern recused himself as required by law.

(3) 2nd extraordinary meeting of the 20th Board session held on June 24, 2016: Senior Vice President Position Adjustment Proposal: Senior Vice President Tung, Hsiao-Hsing recused himself.

(4) 7th meeting of the 20th Board session held on August 11, 2016:

Senior Manager Remuneration Adjustment Proposal: Chairman, president, and all senior vice presidents recused themselves.

Chairman Ho, Nuan-Hsuan Remuneration Proposal: Chairman, president, and all senior vice presidents recused themselves.

Proposal to lift concurrent position non-compete restrictions on Chairman Ho, Nuan-Hsuan: Chairman, president, and all senior vice presidents recused themselves.

President Hsieh, Su-Chien Remuneration Proposal: President and all senior vice presidents recused themselves.

Proposal to lift concurrent position non-compete restrictions on Director Hsieh, Su-Chien: President and all senior vice presidents recused themselves.

Senior Vice President Chang, Young Remuneration Proposal: Senior Vice President Chang, Young recused himself.

Proposal to lift concurrent position non-compete restrictions on Senior Vice President Chang, Young: Senior Vice President Chang, Young recused himself.

Senior Vice President Lo, Ya-Mei Remuneration Proposal: Senior Vice President Lo, Ya-Mei recused herself.

Proposal to lift concurrent position non-compete restrictions on Senior Vice President Lo, Ya-Mei: Senior Vice President Lo, Ya-Mei recused herself.

Senior Vice President Appointment Proposal: Vice President Chang, Chih-Chieh recused himself.

Proposal to lift concurrent position non-compete restrictions on Senior Vice President Chang, Chih-Chieh: Senior Vice President Chang, Chih-Chieh recused

himself.

(5) 8th meeting of the 20th Board session held November 10, 2016:

Proposal to lift concurrent position non-compete restrictions on Senior Vice President Chang, Young: Senior Vice President Chang, Young recused himself. Senior Vice President Chang, Chih-Chieh Remuneration Proposal: Senior Vice President Chang, Chih-Chieh recused himself.

(6) 9th meeting of the 20th Board session held on January 17, 2017:

Chairman and Manager Annual Bonus 2016 and Spring Festival Incentive Pay 2017: Chairman, president, and all senior vice presidents recused themselves.

3. Board of Director functional improvement goals for the last year and the current year (such as establishing an audit committee and improving information transparency) and implementation assessment:

(1) In order to strengthen management mechanisms and oversight, three functional committees, Remuneration Committee, Audit Committee, and Risk Committee, were set up under the Board of Directors. Each are convened based on their charters, which were approved by the Board. The committees meet to review and discuss relevant issues and report their conclusions and suggestions to the Board for resolution. The committees have been a success. The regulations governing functional committees passed by the Board specify the number of committee members, term of office, committee powers, rules of procedure, and resources to be provided by the Company when the committees exercise their powers.

(2) For more information regarding China Airlines Corporate Governance, please refer to our website (<http://www.china-airlines.com>): Corporate Social Responsibility→Corporate Sustainability Site→Investors→Corporate Governance

Note 1: For directors that are juridical persons, the name of the juridical person shareholder and its representatives must be disclosed.

Note 2: (1) When a director resigns before the year's end, the remark column shall note the date of resignation and actual attendance rate (%) calculated based on the number of meetings held during the period prior to resignation and the director's actual number of meetings attended.

(2) Before year's end, if there is a change of directors, the new and old directors shall be included in the table and the remark column shall note whether the director has been reelected or newly elected and the date of the (re)election. Actual attendance rate (%) is calculated based on the number of meetings held during the period of service and the director's actual number of meetings attended.

3.3.2 Audit Committee:

The Audit Committee convened seven meetings from January 1, 2016 through April 24, 2017. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Chung, Lo-Min	7	0	100%	Served as independent director from 06/15/2012 and continued in the position on 06/26/2015
Independent Director	Luo, Hsiao-Hsien	7	0	100%	Served as independent director from 06/15/2012 and continued in the position on 06/26/2015
Independent Director	Ting, Tin-Yu	7	0	100%	Newly appointed independent director on 06/26/2015

Other mentionable items:

1. In the operation of the Audit Committee, should one of the below situations occur, the Board Meeting date, session, content of the resolution, result of the Audit Committee resolution, and the Company's response to said opinions shall be properly recorded:

(1) Matters listed in Article 14-5 of the Securities and Exchange Act:

Meeting Dates	Resolution	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
3rd Audit Committee Meeting of the 20th Board Session held on March 25, 2016	2015 Annual Operations Report and Financial Statements 2016 Appointment and Remuneration for Certified Public Accountants 2015 Internal Control System Statement	None
4th Audit Committee Meeting of the 20th Board Session held on May 12, 2016	Deloitte & Touche CPA Replacement Proposal	
5th Audit Committee Meeting of the 20th Board Session held on August 11, 2016	Consolidated Financial Statement for the Second quarter of 2016 (including the first half of the year)	
2nd Audit Committee Extraordinary Meeting of the 20th Board Session held on January 17, 2017	Financial Division Vice President Position Change Proposal	
7th Audit Committee Meeting of the 20th Board Session held on March 30, 2017	2016 Annual Operations Report and Financial Statements 2017 Appointment and Remuneration for Certified Public Accountants Revision to the Procedures Governing the Acquisition and Disposal of Assets 2016 Internal Control System Statement	

(2) Other matters up for decision by the Board not listed in Article 14-5 of the Securities and Exchange Act that were not passed by the Audit Committee but approved by a two-thirds majority of the entire Board: None.

2. In situations where independent directors recuse themselves due to conflict of interest, the independent director's name, content of the resolution, reason for recusal, and his or her voting participation should be properly recorded: None.

3. Communication between independent directors and internal audit managers and auditors (regarding issues such as Company financial and operational status, procedures, and results):

(1) Internal audit managers provide Audit Committee members with regular updates on audit report results and report additional findings during the quarterly Audit Committee Meeting. If a special situation should arise, internal audit managers shall immediately report to the Audit Committee. Independent directors freely offer opinions and communicate with the management team to reach a consensus, then dutifully record and implement. From the year 2016 through the publication of this report, the Company's Audit Committee and internal audit managers maintain free and frequent communication.

(2) The company retains CPAs who report the results of their financial statement audit to the Audit Committee during the quarterly meeting and discuss any additional matters as required by law. If a special situation should arise, CPAs shall immediately report to the Audit Committee. The Company's Audit Committee and CPAs maintain strong communication.

(3) Resolutions approved by the Audit Committee and relevant content:

- 3rd Audit Committee Meeting of the 20th Board Session held on March 25, 2016:
2015 Annual Operations Report and Financial Statements; 2015 Earnings Distribution; 2016 Appointment and Remuneration for Certified Public Accountants; 2015 Internal Control System Statement: The above proposals were approved by all committee members in attendance and submitted to the Board.
- 4th Audit Committee Meeting of the 20th Board Session held on May 12, 2016:
Deloitte & Touche CPA Replacement Proposal: Approved by all committee members in attendance and submitted to the Board.
- 5th Audit Committee Meeting of the 20th Board Session held on August 11, 2016:
Consolidated Financial Statement for the Second quarter of 2016 (including the first half of the year): Approved by all committee members in attendance and submitted to the Board.
- 6th Audit Committee Meeting of the 20th Board Session held on November 10, 2016:
2017 Audit Plan; Two 737-800 Passenger Airliner (B-18608/B-18607) Sales Proposal 2016: Approved by all committee members in attendance and submitted to the Board.
- 1st Audit Committee Extraordinary Meeting of the 20th Board Session held on December 13, 2016:
Tigerair Taiwan Equity Transaction Proposal: Approved by all committee members in attendance and submitted to the Board.
- 2nd Audit Committee Extraordinary Meeting of the 20th Board Session held on January 17, 2017:
Financial Division Vice President Position Change Proposal: Approved by all committee members in attendance and submitted to the Board.
- 7th Audit Committee Meeting of the 20th Board Session held on March 30, 2017:
2016 Annual Operations Report and Financial Statements; 2016 Deficit Compensation Proposal; 2017 Appointment and Remuneration for Certified Public Accountants; Revision to the Procedures Governing the Acquisition and Disposal of Assets; 737-800 Passenger Airliner (B-186067) Sales Proposal; 2016 Internal Control System Statement: The above proposals were approved by all committee members in attendance and submitted to the Board.

3.3.3 Risk Committee:

The Risk Committee convened six meetings from January 1, 2016 through April 24, 2017. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Luo, Hsiao-Hsien	6	0	100%	Assumed post on May 6, 2014
Member	Ting, Kwang-Hung	6	0	100%	Assumed post on May 6, 2014
Member	Charles C.Y. ,Chen	2	1	67%	Assumed post on August 11, 2016
Member	Huang, Hsiu-Gu	6	0	100%	Assumed post on May 6, 2014
Member	Lin, Su-Ming	6	0	100%	Assumed post on May 6, 2014
Member	Lee, Cho-Ping	2	1	67%	Dismissed on July 26, 2016

3.3.4 Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Brief Explanation	
1. Did the Company establish its Corporate Governance Best Practice Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and disclose those Principles?	✓		The China Airlines Co., Ltd. Corporate Governance Best Practice Principles were established in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies. The Principles were passed during the 6th meeting of the 19th Board session held on March 29, 2013 and disclosed on the TWSE Market Observation Post System.	No Difference
2. Company ownership structure and shareholder rights				
(1) Did the Company establish internal operational procedures for dealing with shareholder suggestions, questions, disputes, and lawsuits and put these procedures into practice?	✓		(1) To better implement corporate governance, CAL established the Regulations Governing Investor Relations, which set up fixed procedures to handle investor suggestions and concerns to ensure open communication channels between the Company and investors and the quality of information disclosure.	No Difference
(2) Does China Airlines keep maintain a list of the major Company shareholders and the ultimate owners of these shareholders?	✓		(2) The China Aviation Development Foundation is China Airlines’ largest shareholder and maintains full communication and contact with the Company.	No Difference
(3) Did China Airlines establish and implement risk control mechanisms and firewalls at the Company and affiliated enterprises?	✓		(3) The Company has established Operational Procedures for Endorsements/Guarantees, Operational Procedures for Lending Funds to Others, and Regulations Governing Management of Invested Enterprises. All capital loans and funding, endorsements/guarantees, and operational supervision and management of Company subsidiaries shall proceed in accordance with these procedures and regulations. Audit units perform quarterly audits of Company endorsements/guarantees and capital loans/funding, which are provided to management and independent directors. The Corporate Development Office is responsible for overseeing implementation at invested enterprises and should any faults be discovered, an improvement deadline is set and the progress is tracked.	No Difference
(4) Did the Company establish internal standards to prevent insider trading on undisclosed information?	✓		(4) The Company established the Directors Code of Conduct, Procedures for Handling Material Inside Information, and High-Level Manager Code of Conduct to specify insider trading prevention and processing of secret stock trading and operating information as required of employees by law. Those with undisclosed material inside information are prohibited from engaging in securities trading.	No Difference
3. Structure and responsibilities of the Board of Directors				
(1) Has the Company established policies calling for diversity among members of the Board of Directors and put said policies into practice?	✓		(1) Members of the Company’s Board of Directors generally have the necessary expertise, experience, and character to perform their duties. Their backgrounds include aviation, sea cargo, transportation, finance and accounting, insurance, telecommunications, academia, construction, public utilities, and international trade. In addition they have an international viewpoint, decision-making leadership, and crisis management capabilities.	No Difference
(2) In addition to the establishment of the Remuneration Committee and Audit Committee as required by law, did the Company establish committees with other functions of its own accord?	✓		(2) In addition to establishing the Audit and Remuneration Committees as required by law, we also set up the Risk Committee, which is convened as outlined in the organization charter approved by the Board of Directors. The Committee is accountable to the Board of Directors and examines and discusses relevant issues and brings conclusions and suggestions to the Board for resolution. Results have been quite successful.	No Difference
(3) Has the Company established performance evaluation guidelines and evaluation methods for the Board of Directors and does it evaluate its performance regularly each year?	✓		(3) The Company’s Board comprises ten juridical person shareholder representatives and three independent directors. Of these, the 10 juridical person shareholder representatives are assessed as determined by the juridical person shareholders, while the responsibilities of the three independent directors shall be faithfully fulfilled in accordance with the powers conferred by law.	No Difference
(4) Does the Company periodically assess the independence of external CPAs?	✓		(4) The Company’s Audit Committee and Board of Directors, as stipulated in Article 29 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, assess the independence and suitability of auditors on a yearly basis. Important requirements are as follows: 1. Issued an accountant independence declaration. 2. Not served as Company director or manager. 3. Not a shareholder in the Company and has never been on the payroll. 4. The accounting firm for which they work is not a Company affiliated enterprise. 5. Has not provided any non-auditing services to the Company that could affect	No Difference

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Brief Explanation	
			complete independence. After evaluation, Accountants Yang, Chen-Hsiu and Chen, Li-Chi of Deloitte & Touche, were found to meet the above independence standards and qualified to serve as the Company CPAs.	
4. Has the Company set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (this may include but is not limited to furnishing directors and supervisors information required for business execution, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, and producing minutes of board meetings and shareholders' meetings)?	✓		The Secretarial Office of the Board of Director is responsible for holding Board of Directors meetings and assisting in related affairs, including furnishing information required for business decisions by Directors, handling matters relating to Board meetings, Committees meetings and recording minutes of relevant meetings, etc.; the Finance Div. is responsible for handling matters relating to Shareholders meeting; the Administration Div. is responsible for handling corporate registration and amendment registration.	No Difference
5. Has the Company established communication channels with stakeholders (including but not limited to shareholders, employees, customers, and suppliers) and set up an area dedicated to stakeholders on the Company website? Does the Company respond appropriately to corporate social responsibility issues that stakeholders consider important?	✓		The China Airlines website features a Stakeholder Contact section (https://www.china-airlines.com/tw/en/about-us/stakeholder) that lists the available communication channels for each of the Company's stakeholders and where they can reach the appropriate staff who can provide the required response.	No Difference
6. Has the Company appointed a professional shareholder services agent to handle shareholders meeting matters?	✓		The Company's professional services organization is CTBC Bank, which has been appointed to handle shareholder meeting matters.	No Difference
7. Information disclosure (1) Has the Company established a public website to disclose financial, operational, and corporate governance information? (2) Has the Company adopted other methods of information disclosure (e.g., setting up an English website, designating a specialist responsible for gathering and disclosing Company information, setting up a spokesperson system, uploading recordings of investor conferences onto the Company website)?	✓ ✓		(1) Dedicated units within the Company provide information to be disclosed on the China Airlines corporate website (http://www.china-airlines.com) regarding marketing, operations, finance, administration, aircraft operations, human resources, training, Shareholders' Meeting, and the annual report, prospectus, and any material information. Through this easily available information, consumers, suppliers, and investors can better understand China Airlines operations. (2) The Company has set up an English version of our corporate website, designated specialists responsible for gathering and disclosing Company information and set up a spokesperson system overseen by a dedicated unit (Corporate Communication Office) responsible for releasing information through press releases, media interviews, and press conferences.	No Difference No Difference
8. Does China Airlines have other important information to facilitate better understanding of the Company's corporate governance practices (including, but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, director and supervisor training regimes, risk management policies, and risk measurement standards as well as the implementation of client policies and the Company's purchase of liability insurance for its directors and supervisors)?	✓		(1) To educate employees regarding the Company's management activities and decision-making objectives, while ensuring they can receive information and express their opinions, the Company has implemented the three below areas: 1. Information: Regularly share the latest business news and decision-making developments on the internal CAL website and send important information by email to all employees. Establish the WECARE Mailbox, Employee Suggestion Mailbox, and Team+ instant communication platform to provide employees with several direct channels of communication to express their opinions or lodge complaints. 2. Organization: Depending on the scope and attributes of each Company unit, we have established employee care departments or positions that are responsible for maintaining open communication channels and the overall management of related issues. 3. Systems: Regularly hold labor-management meetings and supervisor and staff communication meetings, employee welfare committee meetings, and a variety of union and employee representative meetings during which the Company can disclose information regarding corporate governance operations and resolutions that fully respect the rights and opinions of employees. (2) Beginning in 2016, in addition to arranging risk management training courses for directors, the Secretarial Office of the Board of Directors regularly schedules related classes, lectures, and seminars as part of director continued education	No Difference

Evaluation Item	Implementation Status		Brief Explanation	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>(including topics such as professional ethics, code of conduct, securities laws and regulations, accounting, finance, corporate governance, risk management, internal controls, and internal auditing) available to both directors and managers.</p> <p>(3) The Company’s Internal Control System covers all operational activities. Transactions are divided into 10 categories on the internal control cycle to properly implement internal auditing and strengthen supervision and management.</p> <p>(4) Internal and external Company risk factors change as management activities and socioeconomic factors change and our business plan and budget are revised accordingly. Internal and external factors at each operating level change as each level’s management activities and organizational structures change. Through communication and proper adjustments and training regarding the Company’s organizational structure and responsibilities, negative factors can be eliminated and the Company can effectively respond to changes and immediately implement suitable measures to protect the interests of the Company.</p> <p>(5) Customer opinions serve as the Company’s core consideration. In order to strengthen customer service, we has established the Optimized Services Working Group directly under the Chairman. Through establishing a service strategy and procedure that exceeds our customers’ expectations and coordinates interdepartmental communication, we work to develop service improvement strategies to comprehensively upgrade China Airlines’ service quality.</p> <p>(6) The Company has purchased liability insurance for the entire Board of Directors to reduce and disperse the risk to directors should a mistake or negligent behavior result in Company liabilities.</p>	
<p>9. Please explain improvements that have been made in response to the results of the Corporate Governance Evaluation issued by the Taiwan Stock Exchange Corporate Governance Center: Communication between independent directors and internal audit managers and auditors (including method of communication, matter, and result) has been disclosed on the Company website and an investor relations contact window has been set up for investor communications. Beginning in 2017, ethical corporate management units within the Company will provide an annual report to the Board of Directors and discuss their progress of implementation on the Company website. An English version of the Annual Report will also be uploaded seven days prior to the Shareholders’ General Meeting.</p>				

3.3.5 Composition, Responsibilities and Operations of the Remuneration

Committee

The objective of the Remuneration Committee is to assist the Board to implement and assess the Company's overall compensation and benefits policy and director and manager remuneration.

A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title (Note 1)	Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks	
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8			
Independent Director	Luo, Hsiao-Hsien	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Independent Director	Ting, Tin-Yu	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Other	He, Jyun-Huei	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-

Note 1: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during their term(s) in office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

Note 2: The Remuneration Committee is composed of four members. For the Remuneration Committee Charter, please refer to the Company website: <http://www.china-airlines.com>.

B. Attendance of Members at Remuneration Committee Meetings

The Remuneration Committee convened six meetings over the past year (from January 1, 2016 through April 24, 2017). Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Luo, Hsiao-Hsien	6	0	100%	Assumed post on July 24, 2015.
Member	Ting, Tin-Yu	5	1	83%	Assumed post on July 24, 2015 and was represented by Luo, Hsiao-Hsien during the March 11, 2016 meeting.
Member	Cao, Shou-Min	3	0	100%	Assumed post on July 24, 2015 and resigned on July 1, 2016.
Member	He, Jyun-Huei	6	0	100%	Assumed post on July 24, 2015.

Other mentionable items:

1. If the Board of Directors declines to adopt or modifies a recommendation of the Remuneration Committee, the date of the meeting, session, content of the motion, resolution by the Board of Directors, and the Company's response to the Remuneration Committee's opinion (e.g., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified) shall be recorded: None.
2. Resolutions of the Remuneration Committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

3.3.6 Corporate Social Responsibility

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Brief Explanation	
1. Corporate governance implementation				
(1) Has the Company established corporate social responsibility policies or a CSR system and reviewed the effectiveness of implementation?	✓		(1) CAL's six CSR missions are: 1. Satisfy shareholders with our integrity. 2. Move customers with our enthusiasm. 3. Support partners with our actions. 4. Protect our Earth through sustainability. 5. Nurture employees with our care. 6. Give back to society through culture. To codify the Company's CSR implementation, the Corporate Social Responsibility and Sustainable Development Code of Practice was approved during the 6th meeting of the 20 th session of the Board of Directors held on May 12, 2016, which will serve as our guiding principles to meet our corporate social responsibilities.	No Difference
(2) Does the Company regularly hold CSR training?	✓		(2) China Airlines holds annual sustainable development training courses and high-level management seminars to educate colleagues on sustainable development concepts.	No Difference
(3) Has the Company designated full- (or part-) time personnel to implement corporate social responsibility policy with senior management authorized by the Board of Directors to manage them, and do they give status reports to the Board of Directors?	✓		(3) CAL established our highest-tier corporate sustainability organization, the Corporate Sustainability Committee, with China Airlines' President directly supervising and managing its operations. The Corporate Development Office serves as the executive secretary of the Committee helping to promote sustainability operations and reports quarterly to the Board of Directors regarding related initiatives.	No Difference
(4) Has the Company established reasonable remuneration policies and integrated the employee performance evaluation system and CSR policies, and established a clear and effective incentive and discipline system?	✓		(4) The Company's Human Resource Manual clearly stipulates a code of practice for related operations including performance evaluations, rewards and penalties, and remuneration.	No Difference
2. Sustainable environmental development				
(1) Has the Company endeavored to make more efficient use of resources and use renewable materials that have a lower impact on the environment?	✓		(1) Through establishing corporate environmental and energy management systems and continuing to improve related operations, China Airlines endeavors to increase the benefits of our overall operations on the environment. Each year, we set KPI for a variety of important areas such as energy usage, waste management, and environmental services. Through quarterly meetings of the Environmental Management Committee convened by the President, performance is reviewed and improvements are evaluated. The Company has implemented resource management based on the principle of the 3 R's (Reduce, Reuse, Recycle) and purchasing decisions now take into account if goods include recycled materials. The policy highlights are as follows: 1. The CAL Park Headquarters houses a rain reclamation facility that captures rainwater for use in building toilets. 2. Reclaimed water from the maintenance facility (water treated by the wastewater treatment plant and approved for reuse) is used for washing vehicles, in fountains, and watering the landscaping. 3. The Cargo Sales, Service, and Marketing Division procures mixed material rain-resistant plastic sheeting (recycled material) that has a smaller environmental impact than 100% new plastic material sheeting. 4. In-flight service related items are produced with recycled materials such as rice husk chopsticks and headrest covers made of coffee grounds. 5. Magazines and important printed materials (such as calendars and menus) are printed on recycled or FSC-certified paper.	No Difference
(2) Has China Airlines established an environmental management system that is specifically designed with the Company's operations in mind?	✓		(2) In 2012, the Company began taking a systematic approach to risk management and launched phased implementation of the ISO14001 Environmental Management System and ISO 50001 Energy Management System. Added to ISO 14064-1 Greenhouse Gasses (GSG) Management System already being implemented, these systems enable China Airlines to achieve our goal of a comprehensive, effective environmental and energy management mechanism.	No Difference
(3) Does the Company pay close attention to the potential impacts of climate change on operations, has it undertaken an examination of greenhouse gas	✓		(3) Beginning in 2008, the Company began actively implementing the ISO 14064-1 GHG Management System and launched an inventory for all greenhouse gas emissions caused by our operations, which is verified by a third-party. In addition, in 2011 in order to keep up with international trends, we actively established a	No Difference

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Brief Explanation	
emissions, and has it established a carbon and greenhouse gas reduction strategy?			carbon risk management system and began participating in the Carbon Disclosure Project (CDP). In October 2014, we announced a voluntary GHG reduction goal. Prior to the International Civil Aviation Organization's announcement of a global carbon management scheme, the Company had already begun actively promoting self-management of carbon. In 2009, we signed on to IATA's three phased environmental goals, which include average annual fuel use efficiency increases of 1.5% through 2020, Carbon Neutral Growth by 2020 (CNG2020), and a 50% reduction in emissions by 2050 compared to 2005 figures. Our actions will help to spur the strategic goals and overall value of Taiwanese civil aviation GHG emissions reductions.	
3. Social welfare				
(1) Has the Company established management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	✓		(1) To ensure the health of our management mechanisms and organizational capacities, the Company drew up an Employee Code of Conduct and Employee Work Guidelines in accordance with R.O.C. labor laws and international labor conventions.	No Difference
(2) Does the Company have an employee complaint mechanism and channels and does it take care of said complaints appropriately?	✓		(2) To protect the rights and interests of employees and maintain good relations between management and labor, the Company established internal rules such as the Regulations Governing Employee Complaints and Regulations Governing Employee Safety Report Incentives. In addition, we have provided the Chairman and President email addresses and other complaint mechanisms to the entire workforce and all complaints received are handled according to these operating procedures.	No Difference
(3) Does the Company provide employees with a safe and healthy work environment and regularly implement health and safety education programs for employees?	✓		(3) 1.CAL regularly holds health and safety inspections to identify and eliminate hazards. There were 100 inspections held in 2016 that identified 64 faults, of which 64 were improved for an improvement rate of 100%. 2.Utilizing the CAL Aviation Quality Database (AQD) integrated safety management system, we can discover hidden hazards in the operating environment and implement risk assessments to reduce the incidence of workplace accidents. In 2016, there were 97 AQD-related health and safety cases and all 97 have been improved and the cases closed, for a 100% improvement rate. 3.Because of the high incidence of major traffic accidents in Taiwan, random checks are performed on leased CAL transportation vehicles to ensure employee safety. 4.To provide employees with safe, nutritious meals in the employee cafeteria, regular checks are made to ensure a hygienic environment and food quality. 5. Perform health and safety training (1) General health and safety training (implemented in coordination with "CAL and me") (2) New manager health and safety e-learning training. (3) Defensive driving training (e-learning).	No Difference
(4) Has the Company established a mechanism enabling periodic communication with employees and a reasonable method of informing employees of those operational changes that could significantly affect their work?	✓		(4) In addition to quarterly high-level manager/employee communication meetings, monthly labor-management meetings, and labor-management negotiations as needed, CAL provides employees and management with channels to communicate important operating information and exchange ideas to create a positive consensus.	No Difference
(5) Has the Company established an effective career skill development training program for employees?	✓		(5) In order to nurture company talent, CAL's training units hold an annual training program that includes strategic skills training, management skills training, and on-the-job training to give employees essential skills to execute their work while improving service quality and ensuring flight safety.	No Difference
(6) Has the Company established policies regarding R&D, procurement, production, operations, and service processes and complaint procedures to safeguard the rights of customers?	✓		(6) 1.In our drive to protect customer personal information, CAL has established Privacy and Personal Information Protection Mechanisms and disclosed them on our website. 2.CAL provides consumers with several channels to lodge complaints regarding our products or services, which include in-flight surveys, CAL website, service hotlines at various subsidiaries, or customers can directly contact us by mail. The customer will be contacted after the complaint is processed.	No Difference No Difference
(7) Does the Company's product and service marketing and labeling adhere to relevant laws and regulations and international standards?	✓		(7) CAL's services and products meet the rules and regulations of all relevant nations. In order to provide passengers with better online services and an improved user experience, in 2015 the China Airlines website was redesigned to meet US DOT airline website accessibility standards and WCAG AA certifications. Users with disabilities can utilize alternative options to access website content making the experience more user friendly and convenient.	No Difference

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Brief Explanation	
(8) Prior to entering a business relationship with a supplier, does the Company first determine whether or not the supplier has any record of negatively impacting society or the environment?	✓		(8) Potential CAL suppliers must issue a "tender declaration" prior to submitting a tender. CAL requires that suppliers meet conflict of interest avoidance principles, anti-bribery regulations, and supplier integrity standards, while at the same time following all local laws. CAL carefully assesses suppliers' impact on the environment and society and their image, including their reputation and any record of previous illegal activities.	No Difference
(9) Do the Company's contracts with its major suppliers include provisions for terminating the agreement at any time in the event that the suppliers are involved in any activities that violate Company CSR policies and that significantly adversely impact the environment or society?	✓		(9) The Company developed the China Airlines Supplier Code of Conduct clearly stating that the code shall be signed and followed. Topics covered include legal and regulatory compliance, human rights and labor standards, occupational health and safety, environmental protection, fair trade and ethics, quality and safety, and cyber security. Should a supplier violate the code, China Airlines shall terminate the business relationship. In addition, in 2016 CAL was chosen as a constituent stock of the DJSI Emerging Markets Index and our supply chain management score was the highest in the industry.	No Difference
4. Strengthening information disclosure (1) Does the Company disclose on its website and TWSE Market Observation Post System relevant and reliable information about Company CSR?	✓		(1) The China Airlines website features a dedicated CSR section to highlight our related programs and we have disclosed our "CSR Report/Sustainability Report" and "GHG Emissions and Reduction Information" on the Taiwan Stock Exchange Market Observation Post System.	No Difference
5. If the Company has drawn up a code for CSR based on the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies please describe any differences between said code and the Best Practice Principles: In order to comprehensively implement CSR, China Airlines has established the Corporate Social Responsibility and Sustainable Development Code of Practice based on the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. The Code of Practice was approved during the 6th meeting of the 20 th session of the Board of Directors held on May 12, 2016 and comprehensively reviews the Company's operating structure and provides feedback regarding management and execution. From the broad categories of environmental, social, and governance perspectives, CAL is committed to fulfilling our corporate social responsibility. Over the past year, there were no differences between the CAL Code of Practice and TWSE/TPEX best-practice principles.				
6. Other important information for facilitating the understanding of CSR and its implementation: (1) Environmental protection: We actively participate in carbon reduction and energy conservation while continuing to improve fuel efficiency. Starting in 2015, the next generation, environmentally-friendly, fuel efficient Boeing 777-300 ER and Airbus A350-900 passenger aircraft began joining the fleet. With 20% and higher reductions in carbon emissions, the planes meet both service efficiency and environmental demands. (2) Social welfare: CAL has long supported educational outreach through participating in the Friendly Campus remote area elementary education advocacy program along with the Global Views Magazine's Sharing Knowledge Platform charitable project for children. We invited young elementary students from Shi-Hai Primary School, Shan Fong Elementary, Jhuwei Elementary, and Hai-Hu Elementary to meet NBA star point guard Jeremy Lin. CAL also sponsored the Bornanew Youth Caring Association's 616 Youth Dream Factory program, worked together with the Fisher's Association of Taoyuan District to hold the 2016 Warm Hearth activity, and continued to provide complementary flights to children with serious medical conditions through the Make a Wish Foundation. (3) Promotion of CSR: CAL participated in travel exhibitions in Taiwan and abroad, and sponsored the Tourism Bureau, the Taiwan Visitors Association's 2016 Taiwan Lantern Festival, 2016 Fulong International Sand Sculpture Art Festival, and Taipei City Government's Velo-city Global expo. The Company also sponsored the Tourism Bureau's 10 Millionth Foreign Visitor program, showing our concrete support for the promotion of Taiwan's tourism industry. Because of China Airlines' long-term implementation of corporate governance and sustainable development, in 2016 CAL was selected as a constituent stock of the DJSI Emerging Markets Index, which represents international recognition of our commitment and hard work and gives us more confidence as we continue to improve our performance.				
7. If the Company CSR report has received certification from relevant certification bodies, please detail below: The CAL 2015 CSR Report was certified by SGS Taiwan Ltd. in May 2016 as meeting GRI G4 core indicators and passed AA1000AS TYPE II high-level assurance.				

3.3.7 Ethical Corporate Management

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and Reason
	Yes	No	Brief Explanation	
1. Establishment of ethical operation policies and programs (1) Do the Company's Articles of Association and external documents explicitly express its ethical policies and methods and are the Board and management committed to the active	✓		(1) CAL has established Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct, which were passed in 2016 at the 5th meeting of the 20 th Board session. These guidelines and principles clearly spell out the Company's ethical operating policies, methods, and commitments. They are published on the CAL website and the Taiwan Stock	No Difference

Evaluation Item	Implementation Status		Brief Explanation	Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and Reason
	Yes	No		
<p>implementation of these commitments?</p> <p>(2) Has the Company established and implemented programs to prevent unethical conduct and do these programs clearly specify relevant procedures, conduct guidelines, and a discipline and appeals system for rule violations?</p> <p>(3) Does the Company implement preventative measures for each item under Clause 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies or other operations that have higher risk of unethical behavior?</p>	✓		<p>Exchange Market Observation Post System.</p> <p>(2) CAL's Procedures for Ethical Management and Guidelines for Conduct specifies prohibited unethical behavior, reporting mechanisms, and a disciplinary system, and is being implemented in each division of the Company. In addition, CAL has also established a dedicated Ethics Management Unit responsible for reporting annually to the Board regarding implementation.</p> <p>(3) China Airlines' Ethical Corporate Management Best Practice Principles expressly state that the scope of these regulations shall cover all business operations with a higher risk of unethical behavior, while also strengthening related measures to prevent those situations listed under Clause 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies.</p>	<p>No Difference</p> <p>No Difference</p>
<p>2. Implementing ethical corporate management</p> <p>(1) Does the Company evaluate the ethical records of the businesses with which it has dealings and include clear ethical corporate behavior provisions in contracts with such counterparties?</p> <p>(2) Has the Company established an organization under the direct jurisdiction of the Board of Directors that promotes ethical management principles and also regularly reports to the Board concerning implementation?</p> <p>(3) Has the Company formulated and implemented policies to prevent conflicts of interest and provide appropriate ways to record any potential conflicts found?</p> <p>(4) Has the Company implemented effective accounting and internal control systems and does it have an internal auditing unit or independent accountant periodically review them?</p> <p>(5) Does the Company periodically hold internal and external ethical corporate behavior training?</p>	✓	✓	<p>(1) In the process of business dealings with other companies, CAL employees explain our ethical management policy and related regulations to counterparties and expressly refuse to directly or indirectly provide, promise, demand or accept any form of improper benefit. When signing contracts with others, CAL fully reviews the counterparty's ethical corporate behavior and includes complying with our ethical corporate management policies as a provision in contracts.</p> <p>(2) The CAL Human Resources Division is the unit tasked with promoting ethical management and is responsible for collating information regarding ethical operations implementation from all relevant units and reporting these findings to the Board of Directors.</p> <p>(3) CAL Procedures for Ethical Management and Guidelines for Conduct expressly state that should a conflict of interest arise in the execution of Company duties, employees shall report the situation to their direct supervisor, who should provide appropriate guidance.</p> <p>(4) In order to implement ethical management, the Company has established effective accounting and internal control systems, which are reviewed annually by internal auditors. The unit under review shall issue a corrective plan for each issue discovered during the audit and follow ups will be held regularly to review implementation.</p> <p>(5) When a new employee joins the Company, CAL educates him or her on ethical conduct and ethical corporate management standards. Managers both in Taiwan and in overseas posts also take a related e-learning online course. The Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct are published on the Company's internal website and the China Airlines website for the reference of employees and others.</p>	<p>No Difference</p> <p>No Difference</p> <p>No Difference</p> <p>No Difference</p> <p>No Difference</p>
<p>3. Operation of the Company's Violation Reporting System</p> <p>(1) Has the Company established a concrete violation reporting and rewards system, set up convenient reporting channels, and appointed suitable personnel to handle these cases?</p> <p>(2) Has the Company established an investigation SOP for violation</p>	✓	✓	<p>(1) Article 20 of CAL's Procedures for Ethical Management and Guidelines for Conduct clearly sets out and discloses the violation reporting system, reporting channels, and procedures for handling reported violations. The CAL corporate website and internal website provides the independent reporting mailbox: auditor@china-airlines.com for any person inside or outside the company to report violations. All violation report cases are handled exclusively by the CAL General Audit Office and all information, related handling methods, and follow-up improvement measures are reported to the Board of Directors.</p> <p>(2) All reports of violations and related follow up investigations are kept strictly confidential and CAL has set up clear and effective awards and punishments,</p>	<p>No Difference</p> <p>No Difference</p>

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and Reason
	Yes	No	Brief Explanation	
reporting and a relevant confidentiality mechanism? (3) Does the Company have any measures in place to protect individuals from possible mistreatment arising from reporting violations?	✓		appeals system, violation reporting confidentiality mechanism, and investigation SOP. (3) According to CAL Procedures for Ethical Management and Guidelines for Conduct, employees who process violation reports must sign a written statement pledging to maintain confidentiality of the reporters and the details of the case. CAL also promises to protect the whistleblower from being improperly punished due to the reporting.	No Difference
4. Strengthening information disclosure (1) Does the Company disclose the content of our Ethical Corporate Management Best Practice Principles and their effectiveness on our website and the TWSE Market Observation Post System?	✓		CAL's Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct are disclosed on the China Airlines website and the Taiwan Stock Exchange Market Observation Post System, along with the effectiveness of ethical operations and fair trade principles.	No Difference
5. If the Company has established a code of ethical corporate management based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any differences between said code and the Best Practice Principles: No Differences				
6. Other information that will assist in the understanding of Company ethical corporate management practices: None.				

3.3.8 Corporate Governance Guidelines and Regulations

The Company has adopted the Articles of Association, Corporate Governance Best Practice Principles, Rules of Procedure for Board Meetings, Codes of Ethical Conduct for Directors and Supervisors, Procedures Governing the Election of Directors and Supervisors, Ethical Corporate Management Best Practice Principles, and Rules of Procedure for Shareholders' Meetings and set up the Audit, Remuneration, and Risk Committees under the Board of Directors and drafted each committee charter. The above regulations are posted on the Taiwan Stock Exchange Market Observation Post System (<http://mops.twse.com.tw>) and the Company website (<http://www.china-airlines.com>).

3.3.9 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D

Title	Name	Date of Appointment	Date of Dismissal	Reason for Resignation or Dismissal
Chairman	Sun, Huang-Hsiang	03/07/2013	06/24/2016	Dismissal
President	Chang, Yu-Hern	08/01/2015	06/24/2016	Dismissal
Vice President Finance Div.	Chung, Wan-Chun	02/16/2012	03/01/2017	Dismissal

3.3.10 Other Important Information Regarding Corporate Governance

A. The organization and operations of Company internal auditing are disclosed on the Company website: <http://www.china-airlines.com>.

B. Company financial staff certifications and licenses: Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate: 7 people, International Internal Auditor Certificate: 5 people, R.O.C. Certified Public Accountant License: 3 people, R.O.C. Securities (Senior) Specialist: 10 people, R.O.C. Securities Investment Trust and Consulting Professional: 6 people, R.O.C. Futures Specialist: 4 people, R.O.C. Financial Planning Personnel Proficiency Test Passing Certificate: 4 people, R.O.C. Stock Affairs Specialist Proficiency Test Passing Certificate: 7 people, USA Certified Public Accountant License: 1 people, R.O.C. Basic Enterprise Internal Audit Proficiency Test Passing Certificate: 6 people.

C. Company Director Continuing Education:

From January 1, 2016 through April 24, 2017

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Chairman	Ho, Nuan-Hsuan	3hr	11/10/2016	Taiwan Corporate Governance Association	Guidance for Corporate Governance – A Comprehensive Overview of Principles, Practice, and Trends
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Director	Hsieh, Su-Chien	3hr	10/17/2016	Taiwan Corporate Governance Association	Business Operator Concerns – Worker Holidays
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
		3hr	11/24/2016	Taiwan Corporate Governance Association	Practical Operation of Independent Directors and Functional Committees
		3hr	11/29/2016	Taiwan Corporate Governance Association	Conglomerate Governance
Director	Charles C.Y. ,Chen	3hr	03/08/2016	Taiwan Institute of Directors	Upturning Competitiveness - International Situation and Response Strategies After the Cop21 Paris Summit
		3hr	03/25/2016	Commissioned Course: Taiwan Corporate Governance Association	International Finance and Risk Management Seminar
		3hr	02/25/2017	Taiwan Institute of Directors	Rise of the Innovation Economy – The Changes and Challenges of Enterprise Management
		3hr	03/28/2017	Taiwan Institute of Directors	The Thinking and Challenge of Online Economy in Power Industry
Director	Jong, Jia-shi	9hr	09/12/2016-09/13/2016	Ministry of Labor	Labor Director Professional Competencies Training Course 2016
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Director	Ting, Kwang-Hung	3hr	03/25/2016	Commissioned Course: Taiwan Corporate Governance Association	International Finance and Risk Management Seminar
		3hr	09/09/2016	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations
Director	Lee, Kuo- Fu	3hr	03/25/2016	Commissioned Course: Taiwan Corporate Governance Association	International Finance and Risk Management Seminar
		9hr	09/12/2016-09/13/2016	Ministry of Labor	Labor Director Professional Competencies Training Course 2016
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Director	Cheng, Chuan-Yi	3hr	10/04/2016	Securities & Futures Institute	Legal Issues of Importance to Directors and Supervisors of Public Companies
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Director	Chen, Han-Ming	3hr	09/30/2016	Securities & Futures Institute	Legal Responsibilities and Risk Control for Directors and Supervisors in the Case of Financial Statement Inaccuracies - Focus on Practical Case Studies
		3hr	09/30/2016	Securities & Futures Institute	How Can Directors and Supervisors Avoid Insider Trading
		3hr	10/18/2016	Securities & Futures Institute	Financial Statement Review for Directors and Supervisors Without an Accounting Background
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Director	Lin, Su-Ming	3hr	03/25/2016	Commissioned Course: Taiwan Corporate Governance Association	International Finance and Risk Management Seminar
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Director	Huang, Hsiu-Gu	3hr	03/25/2016	Commissioned Course: Taiwan Corporate Governance Association	International Finance and Risk Management Seminar
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Independent Director	Chung, Lo-Min	3hr	04/21/2016	Securities & Futures Institute	Corporate Governance Forum Series 2016 – Insider Trading and Corporate Social Responsibility
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
Independent Director	Luo, Hsiao-Hsien	3hr	03/25/2016	Commissioned Course: Taiwan Corporate Governance Association	International Finance and Risk Management Seminar
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry
		3hr	04/11/2017	Ministry of Transportation and Communications	Financial statement analysis and practical application
Independent Director	Ting, Tin-Yu	3hr	07/14/2016	Taiwan Corporate Governance Association	Investigating the Legal Responsibilities of Independent Directors
		3hr	11/10/2016	Commissioned Course: Taiwan Corporate Governance Association	Performance Analysis and Improvement Suggestions for the Aviation Industry

D. Corporate Governance Related Training Attended by Company Managers:

From January 1, 2016 through April 24, 2017

Title	Name	Date(s)	Sponsoring Organization	Course	Training hours
Vice President Finance Div.	Chung, Wan-Chun (Note)	05/23/2016-05/24/2016	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
Assistant Vice President Finance Div.	Ho, Hui-Fen	10/06/2016-10/07/2016	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
General Audit Office Auditor General	Chung, Chuar-Duan	01/20/2016-01/22/2016	Securities & Futures Institute	Preemployment Training Workshop for First Time Enterprise Internal Auditors	18hr
		11/03/2016	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Course – Subsidiary Supervision in Practice	6hr
		11/22/2016	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Course – How to Establish Internal Audit Implementation Rules	6hr
General Audit Office Deputy Auditor General	Fang, Juo-Ling	06/02/2016	Accounting Research and Development Foundation	"The Forefront of Internal Controls" An Internal Control System Based in Risk Management	6hr
		11/03/2016	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Course – Subsidiary Supervision in Practice	6hr

(Note) Ms. Chung, Wan-Chun was dismissed from the position of Vice President of the Finance Division on March 1, 2017.

E. On December 6, 2012, after approval by the Board of Directors, the Company established the China Airlines Ltd. Procedures for Handling Material Inside Information. In addition to announcing the new procedures to the Board, management, and employees, they were also published under Important Company Regulations on the Investor Relations section of the CAL website so the Board, management, and employees can reference them at any time in order to avoid violations and the occurrence of insider trading.

China Airlines Ltd. Procedures for Handling Material Inside Information:

- Article 1: These Procedures are specially adopted to establish sound mechanisms for the handling and disclosure of material inside information by the Company, in order to prevent improper information disclosures and to ensure the consistency and accuracy of information released by the Company to the public.
- Article 2: The Company shall implement its handling and disclosure of material inside information in accordance with applicable laws and regulations, the rules and regulations of the Taiwan Stock Exchange Corporation, and these Procedures.
- Article 3: These Procedures shall apply to all directors, managerial officers, and employees of the Company. The Company shall ensure that any other person who acquires knowledge of the Company's material inside information due to their position, profession, or relationship of control shall comply with the applicable provisions of these Procedures.
- Article 4: For the purposes of these Procedures, the term "material inside information" refers to information that is defined as material inside information by the Securities and Exchange Act, other applicable laws and regulations, and the applicable rules and regulations of the Taiwan Stock Exchange Corporation or the GreTai Securities Market.
- Article 5: The Company's Finance Division is tasked with handling material inside information. The division shall have the following functions and authorities:
1. Responsibility for formulating the drafts of these Procedures and any amendments to them.
 2. Responsibility for receiving inquiries in connection with the methods of handling material inside information, and for consultation, review, and recommendations relating to these Procedures.
 3. Responsibility for receiving reports on unauthorized disclosures of material inside information and formulation of corresponding measures.
 4. Responsibility for designing a system for preserving all documents, files, electronic records, and other materials related to these Procedures.
 5. Other activities related to these Procedures.
- Article 6: The Company's directors, managerial officers, and employees shall exercise the due care and fiduciary duty of a good administrator and act in good faith when performing their duties. No director, manager, or employee with knowledge of material inside information of the Company may divulge the information to others before it is made public. No director, managerial officer, or employee of the Company may inquire about or collect any non-public material inside information of the Company not related to their individual duties from a person with knowledge of such information, nor may they disclose to others any non-public material inside information of the Company of which they become aware for reasons other than the performance of their duties.
- Article 7: Proper protection of confidentiality shall be given to files and documents containing the Company's material inside information when transmitted in written form. When transmitted by email or other electronic means, such files and documents must be processed with appropriate security technology such as encryption or electronic signatures.
Files and documents containing the Company's material inside information shall be backed up and stored in a secure location.
- Article 8: The Company shall ensure that the firewalls specified in the preceding two articles are established, and take the following additional steps:
1. Adopt adequate control measures for the firewalls and perform periodic testing.
 2. Enhance measures for custody and maintaining the secrecy of files and documents containing non-public material inside information of the Company.
- Article 9: Any organization or person outside of the Company that is involved in any corporate action of the Company relating to a merger or acquisition, major memorandum of understanding, strategic alliance, other business partnership plans, or the signing of a major contract shall be required to sign a confidentiality agreement, and may not disclose to another party any material inside information of the Company's thus acquired.
- Article 10: The Company shall comply with the following principles when making external disclosures of material inside information:
1. The information disclosed shall be accurate, complete, and timely.
 2. There shall be a well-founded basis for the information disclosure.
 3. The information shall be disclosed fairly.

Article 11: Any disclosure of the Company's material inside information, except as otherwise provided by law or regulation, shall be made by the Company's spokesperson, or by a deputy spokesperson acting in such capacity in a confirmed sequential order. When necessary, the disclosure may be made directly by a responsible person of the Company.

The Company's spokesperson or deputy spokesperson shall communicate to outside parties only information within the scope authorized by the Company, and no personnel of the Company other than those serving as the Company's responsible person, spokesperson, or deputy spokesperson may disclose any material inside information of the Company to outside parties without authorization.

Article 12: The Company shall keep records of the following in respect of any disclosure of information to outside parties:

1. The person who discloses the information, the date, and the time.
2. How the information is disclosed.
3. What information is disclosed.
4. What written material is delivered.
5. Any other relevant details.

Article 13: If a media agency releases information that is in any respect inconsistent with material information disclosed by the Company, the Company shall promptly issue a clarification on the Market Observation Post System (MOPS) and request the media agency to correct the information.

Article 14: Any director, managerial officer, or employee of the Company that becomes aware of any unauthorized disclosure of the Company's material inside information shall report to the responsible unit and the internal audit department of the Company as soon as practicable.

Upon receipt of a report made pursuant to the preceding paragraph, the responsible unit shall formulate corresponding measures. When necessary, it may invite members from the internal audit and other departments to meet for discussion of the measures, and shall keep a record of the results of the measures for future reference. The internal auditors shall also perform such audits as their duties may require.

Article 15: The Company shall take measures to discover those responsible and take appropriate legal action against any personnel under either of the following circumstances:

1. Personnel of the Company disclose material inside information without authorization to any outside party, or otherwise violate these Procedures or any other applicable law or regulation.
2. A spokesperson or deputy spokesperson of the Company communicates to any outside party any information beyond the scope authorized by the Company, or otherwise violates these Procedures or any other applicable law or regulation.

If any person outside the Company divulges any material inside information of the Company, thereby causing damage to any property or interest of the Company, the Company shall pursue appropriate measures to hold the person divulging the information legally liable.

Article 16: These Procedures shall be incorporated into the Company's internal control system. The internal auditors shall keep themselves regularly informed of the status of compliance with these Procedures and shall prepare related audit reports, so as to ensure full implementation of the procedures for handling material inside information.

Article 17: At least once per year, the Company shall conduct educational campaigns to promote awareness among all directors, managerial officers, and employees with respect to these Procedures and related laws and regulations.

The Company shall also provide educational campaigns to new directors, managerial officers, and employees in a timely manner.

Article 18: These Procedures, and any amendments to them, shall be implemented upon approval by the Board of Directors.

3.3.11 Internal Control Systems

A. Internal Control Statement



China Airlines Co., Ltd. Internal Control Statement

Date: March 30, 2017

The Company states the following with regard to our internal control system during the period of fiscal year 2016 based on the self-assessment result :

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are responsibilities of the management and the Board of Directors. The Company has established such a system. The goal of the system is aimed at the operation efficiency and effectiveness (including profits, performance, and assets safeguarding), and to provide reasonable assurance on producing reliable, timely and transparent reports in compliance with the governing law and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company, however, contains self-monitoring mechanisms which will take corrective actions upon detecting deficiency.
3. The Company should evaluate the effectiveness of the design and execution of its internal control system based on judgment criteria set by "the Regulation Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter referred as "The regulations"). The regulations adopt the criteria, and divide the managerial control process into five key elements: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and Communications, and 5. Monitoring. Each element contains detailed items. Aforementioned items please refer to The regulations.
4. The Company has conducted an effectiveness evaluation on its internal control system by adopting the above mentioned internal control system judgment criteria.
5. Based on the preceding assessment result, the Company believes that its internal control system (with subsidiaries supervision and management)

on the date of December 31, 2016 include the awareness of operation effectiveness and target achievement efficiency, reports are reliable, timely, and transparent in compliance with the governing law and regulations. The design and execution of the internal control system are effective which can reasonably assure the accomplishment of the aforementioned objectives.

6. This Statement will become the major part of the Company's annual report and prospectus, which will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been approved by the Board of Directors Meeting of the Company held on the date of March 30, 2017, where none of the thirteen attending directors expressed dissenting opinions, and unanimously affirmed the content of this Statement.

Chairman: 

NUAN-HSUAN HO

President: 

SU-CHIEN HSIEH

- B. If the company has commissioned external auditors to review the Company's internal control system, the external auditor's report should be disclosed: None.

3.3.12 Any disciplinary measures taken against the Company or its internal staff due to violations of legal requirements or taken by the Company against its own staff due to violations of the internal control system. The details of the disciplinary measures, major faults, and improvement measures should be noted: None.

3.3.13 Major Resolutions of Shareholders' Meeting and Board Meetings

A. Major Resolutions of Shareholders' Meeting in 2016

Item	Major resolutions	Execution
1. Amendment to the Articles of Association	The proposal was passed.	The amended Articles of Association were approved by the Ministry of Economic Affairs on August 16, 2016 and published on the Company website.
2. Proposal to lift non-compete restrictions on Director Chang, Yu-Hern	The proposal was passed.	As resolved by the Shareholders' Meeting, non-compete restrictions were lifted on Director Chang, Yu-Hern.
3. 2015 Annual Operations Report and Financial Statements	The proposal was passed.	Published after Shareholders' Meeting resolution.
4. 2015 Earnings Distribution Proposal	The proposal was passed.	Set July 31, 2016 as the record date and August 24, 2016 as the cash dividend distribution date. (Cash dividend of NT\$0.458522382 per share).

B. Major Resolutions of Board Meetings (January 1, 2016 to April 24, 2017)

20 th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
4th meeting	01/15/2016	1. 2015 Employee Compensation Proposal	1. Approved.	1. Recommended that employee bonuses be systematized.	1. The Articles of Association were thusly revised and passed the Shareholders' General Meeting on June 24, 2016.
5th meeting	03/25/2016	1. Amendment to the Articles of Association	1. Approved.	1. None.	1. None.
		2. Proposal to lift non-compete restrictions on Director Chang, Yu-Hern	2. Approved.	2. None.	2. None.
		3. Establishment of Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct	3. Approved.	3. None.	3. None.
		4. 2015 Annual Operations Report and Financial Statements	4. Approved.	4. None.	4. None.
		5. Proposal for 2015 Earnings Distribution	5. Approved.	5. None.	5. None.
		6. 2015 Annual Operations Report	6. Approved.	6. None.	6. None.
		7. Convened the 2016 Annual General Shareholders' Meeting	7. Approved.	7. None.	7. None.
		8. 2015 Internal Control System Statement	8. Approved.	8. None.	8. None.
		9. Proposal to lift non-compete restrictions on Senior Vice Presidents	9. Approved.	9. None.	9. None.
		10. 2016 Appointment and Remuneration for Certified Public Accountants	10. Approved.	10. None.	10. None.
		11. Through self-evaluation, CAL has determined that the Company has the ability to independently complete financial statements, so in accordance with regulations, there is no need to draw up a Capability Upgrade Plan.	11. Approved.	11. None.	11. None.
		12. Issuance of 2016 domestic unsecured corporate bonds	12. Approved.	12. None.	12. None.

20 th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
6th meeting	05/12/2016	1. Revisions to the Audit Committee Charter and Rules Governing the Scope of Powers of Independent Directors 2. Established the Corporate Social Responsibility and Sustainable Development Code of Practice 3. Deloitte & Touche CPA Replacement Proposal	1. Approved. 2. Approved. 3. Approved.	1. None. 2. None. 3. None.	1. None. 2. None. 3. None.
Extraordinary session	06/24/2016	1. Election of the new Chairman 2. President Appointment Proposal 3. Senior Vice President Position Adjustment Proposal 4. Set the record date for disbursement of the 2015 cash dividend and related matters 5. Current status of dispute with Taoyuan Flight Attendants' Union (TFAU) and response measures		1. None. 2. None. 3. None. 4. None. 5. Recommended that during negotiations, the rights and interests of employees, passengers, and shareholders should be considered along with CAL operations and finances.	1. None. 2. None. 3. None. 4. None. 5. Reached an agreement with TFAU during the labor dispute mediation meeting held on June 24, 2016 and are proceeding accordingly.
7th meeting	08/11/2016		1. Approved. 2. Approved. 3. Managerial departments set up a more exhaustive high-level manager remuneration standard plan and was sent to the Board of Directors for resolution		1. None. 2. None. 3. None.

20 th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
		4. Chairman Ho, Nuan-Hsuan Remuneration Proposal 5. Proposal to lift non-compete restrictions on Chairman Ho, Nuan-Hsuan 6. President Hsieh, Su-Chien Remuneration Proposal 7. Proposal to lift non-compete restrictions on President Hsieh, Su-Chien 8. Senior Vice President Chang, Young Remuneration Proposal 9. Proposal to lift non-compete restrictions on Senior Vice Chang, Young 10. Senior Vice President Lo, Ya-Mei Remuneration Proposal 11. Proposal to lift non-compete restrictions on Senior Vice President Lo, Ya-Mei 12. Senior Vice President Appointment Proposal 13. Proposal to lift non-compete restrictions on Senior Vice President Chang, Chih-Chieh		4. None. 5. None. 6. None. 7. None. 8. None. 9. None. 10. None. 11. None. 12. None. 13. None.	4. None. 5. None. 6. None. 7. None. 8. None. 9. None. 10. None. 11. None. 14. None. 12. None.
8th meeting	11/10/2016	1. 2017 Annual Business Plan and Budget Proposal 2. Two 737-800 Passenger Airliner (B-18608/B-18607) Sales Proposal 2016 3. 2017 Audit Plan 4. Proposal to lift non-compete restrictions on Senior Vice Chang, Young 5. Senior Vice President Chang, Chih-Chieh Remuneration Proposal	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved.	1. Recommended that the annual operating results be separated from asset impairment. 2. None. 3. None. 4. None. 5. None.	1. Revised the proposal accordingly and was passed by the Board of Directors on December 14, 2016. 2. None. 3. None. 4. None. 5. None.
Extraordinary session	12/14/2016	1. Tigerair Taiwan Equity Transaction Proposal 2. Revisions to 2017 Annual Business Plan and Budget Proposal	1. Approved. 2. Approved	1. None. 2. None.	1. None. 2. None.

20 th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
9th meeting	01/17/2017	1. 2016 Employee Compensation Proposal 2. Chairman and Manager Annual Bonus 2016 and Spring Festival Incentive Pay 2017 3. Financial Division Vice President Position Change Proposal	1. Approved. 2. Approved. 3. Approved.	1. None. 2. None. 3. None.	1. None. 2. None. 3. None.
10th meeting	03/30/2017	1. Internal Audit Report for Second Half of 2016 2. 737-800 Passenger Airliner Sales Proposal 3. Convened the 2016 Annual General Shareholders' Meeting 4. Issuance of 2017 domestic unsecured corporate bonds 5. 2016 Annual Operations Report and Financial Statements 6. 2016 Business Report 7. 2016 Deficit Compensation Proposal 8. 2017 Appointment and Remuneration for Certified Public Accountants 9. Revisions to Procedures Governing the Acquisition and Disposal of Assets 10. 2016 Internal Control System Statement 11. Revisions to Internal Audit Implementation Rules 12. Revisions to the Corporate Social Responsibility and Sustainable Development Code of Practice	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved. 6. Approved. 7. Approved. 8. Approved. 9. Approved. 10. Approved. 11. Approved. 12. Approved.	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved. 6. Approved. 7. Approved. 8. Approved. 9. Approved. 10. Approved. 11. Approved. 12. Approved.	1. None. 2. None. 3. None. 4. None. 5. None. 6. None. 7. None. 8. None. 9. None. 10. None. 11. None. 12. None.

3.3.14 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting with Important Resolutions Passed by the Board of Directors: None.

3.4 Information Regarding the Company's Audit Fee and Independence

3.4.1 Audit Fee

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Huang, Jui-chan	Chen, Li-Chi	01/01/2016~03/31/2016	Primarily due to personnel rotation within the auditing firm.
Deloitte & Touche	Yang, Chen-Hsiu	Chen, Li-Chi	04/01/2016~12/31/2016	

Unit: NT\$ thousands

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under 2,000				
2	2,000 ~ 4,000			✓	
3	4,000 ~ 6,000				
4	6,000 ~ 8,000		✓		
5	8,000 ~ 10,000				✓
6	Over 10,000				

3.4.2 Audit and Non-Audit Fees Paid to CPAs, the Certified Accounting Firm to Which Said CPAs Belong and Any Affiliated Enterprises and Details Regarding Non-Audit Fees. See Below:

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte & Touche	Huang, Jui-chan Chen, Li-Chi	1,787	-	-	-	2,771	4,558	01/01/2016 ~03/31/2016	Primarily due to personnel rotation within the auditing firm, the CPAs were changed to Yang, Chen-Hsiu and Chen, Li-Chi from the second quarter 2016 financial statement. Other fees include review fee for dual-status business entities using the direct deduction method, transfer pricing report service fee, corporate bond conversion capital review fee, IAS 17 lease draft statement letter fee, personal information project fee and US Airport Passenger Facility Charge tax collection review fee.
Deloitte & Touche	Yang, Chen-Hsiu Chen, Li-Chi	5,363	-	-	-	293	5,656	04/01/2016 ~12/31/2016	Other fees include fees related to corporate bond issuance certification.

3.4.3 Changed audit firms and the audit fee paid was less than the audit fees paid in the previous year prior to the change: Not Applicable.

3.4.4 Those with audit fees amounting to a reduction of 15% or more compared to the previous year: None.

3.5 Replacement of CPA:

Primarily due to personnel rotation within the auditing firm, the CPAs were changed to Yang, Chen-Hsiu and Chen, Li-Chi in 2016.

3.6 Audit Independence: None.

3.7 Changes in Shareholding of Directors, Managers and Major Shareholders

Unit: Shares

Title	Name	2016		The current year through April 24, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Major Shareholder	China Aviation Development Foundation (Note 1)	0	0	83,160,083 (83,160,083)	0
Chairman	China Aviation Development Foundation Representative: Ho, Nuan-Hsuan	0	0	0	0
Director	China Aviation Development Foundation Representative: Hsieh, Su-Chien; Charles C.Y., Chen; Ting, Kwang-Hung; Jong, Jia-Shi; Lee, Kuo- Fu; Cheng, Chuan-Yi; Chen, Han-Ming	0	0	0	0
Director	Chunghwa Telecom Co., Ltd. Representative: Huang, Hsiu-Gu	0	0	0	0
Director	National Development Fund, Executive Yuan Representative: Lin, Su-Ming	0	0	519,750,519 (519,750,519)	0
Independent Director	Chung, Lo-Min	0	0	0	0
Independent Director	Ting, Tin-Yu	0	0	0	0
Independent Director	Luo, Hsiao-Hsien	0	0	0	0
President	Hsieh, Su-Chien (Assumed Post On 06/24/2016)	0	0	0	0
Senior Vice President	Lo, Ya-Mei (Assumed Post On 06/24/2016)	0	0	0	0
Senior Vice President	Kao, Shing-Hwang	0	0	0	0
Senior Vice President	Chang, Chih-Chieh	0	0	0	0
Senior Vice President	Huang, Chwen-Jiun	0	0	0	0
Senior Vice President	Chang, Young (Assumed Post On 06/24/2016)	0	0	0	0
Auditor General	Chung, Chuar-Duan	0	0	0	0
Vice President	Chien, Feng-Nien (Assumed Post On 01/03/2017)	0	0	0	0
Vice President	Chen, I-Ko (Assumed Post On 03/01/2016)	0	0	0	0
Vice President	Lai, Ming-Hui	0	0	0	0
Vice President	Wang, Chen-Min (Assumed Post On 12/10/2016)	0	0	0	0
Vice President	Tsao, Jyh-Fen	0	0	0	0
Vice President	Liu, Der-Chuan	0	0	0	0
Vice President	Peng, Long-Min (Assumed Post On 08/16/2016)	0	0	(693)	0
Vice President	Ku, Yueh-Han (Assumed Post On 08/16/2016)	0	0	0	0
Vice President	Chen, I-Chieh	0	0	0	0
Vice President	Wei, Yih-Jiun (Assumed Post On 08/16/2016)	0	0	0	0
Vice President	Liu, Shyh-Hwa	0	0	0	0
Vice President	Chen, Shann-Juan (Assumed Post On 01/16/2016)	0	0	0	0
Vice President	Liu, Tsao-Yang (Assumed Post On 09/16/2016)	0	0	0	0
Vice President	Chang, Ming-Way	0	0	0	0
Vice President	Lu, Shih-Ming	0	0	0	0

Title	Name	2016		The current year through April 24, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Wang, Houng	0	0	0	0
Vice President	Sun, Jia-Min	34,844	0	0	0
Vice President	Lee, Jung-Hui	0	0	0	0
Deputy Auditor General	Fang, Juo-Ling	0	0	0	0
Assistant Vice President	Tsai, Chih Hung	0	0	0	0
Assistant Vice President	Chou, Jyh-Shyan (Assumed Post On 09/22/2016)	0	0	0	0
Assistant Vice President	Liao, Wei-Chih	0	0	0	0
Assistant Vice President	Hong, Tsu-Kuang (Assumed Post On 06/01/2016)	0	0	0	0
Assistant Vice President	Jeng, Jong-Shinn	0	0	0	0
Assistant Vice President	Peng, Pao Chu (Assumed Post On 08/20/2016)	0	0	0	0
Assistant Vice President	Kung, Yuan-Jau	0	0	0	0
Assistant Vice President	Hsueh, Po-Wen (Assumed Post On 09/01/2016)	0	0	0	0
Assistant Vice President	Lin, Hsiao-Feng	0	0	0	0
Assistant Vice President	Lu, Shwu-Huoy	0	0	0	0
Assistant Vice President	Yu, Yau (Assumed Post On 07/16/2016)	0	0	0	0
Assistant Vice President	Yeah, Shao-Ting	0	0	0	0
Assistant Vice President	Chen, Jo-Ching	0	0	0	0
Assistant Vice President	Ho, Hui-Fen	0	0	0	0
Assistant Vice President	Huang, Tze-Chi	0	0	0	0
Assistant Vice President	Lin, Ming-Hsiu	0	0	0	0
Assistant Vice President	Pan, Wen-Tsung	0	0	0	0
Assistant Vice President	Kao, Shu-Chuan (Assumed Post On 08/16/2016)	0	0	0	0
Assistant Vice President	Liu, Duan-Shiuh	0	0	0	0
Assistant Vice President	Chu, Te-Hsiu (Assumed Post On 09/16/2016)	0	0	0	0
Assistant Vice President	Wang, Wei (Assumed Post On 02/02/2017)	0	0	0	0
Assistant Vice President	Tung, Wei	0	0	0	0
Assistant Vice President	Hsiao, Kuo Chih (Assumed Post On 01/01/2016)	0	0	0	0

Title	Name	2016		The current year through April 24, 2017	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Assistant Vice President	Li, Chih-Wei	0	0	0	0
Assistant Vice President	Chen, Wei-Tau (Dismissed On 01/06/2016)	0	0	0	0
Vice President	Liu, Yah-Chuan (Dismissed On 01/11/2016)	0	0	0	0
Vice President	Kuo, Hsin-Chang (Dismissed On 02/15/2016)	0	0	0	0
Assistant Vice President	Tung, Da-Wei (Dismissed On 02/22/2016)	0	0	0	0
Vice President	Young, Ding-Hwai (Dismissed On 02/23/2016)	0	0	0	0
Senior Vice President	Yu, Chien-Pao (Dismissed On 02/29/2016)	0	0	0	0
Vice President	Yang, Tzu-Pao (Dismissed On 05/20/2016)	0	0	0	0
Assistant Vice President	Chen, Ming-Hui (Dismissed On 05/31/2016)	86,965	0	0	0
Assistant Vice President	Chung, Kang (Dismissed On 05/31/2016)	0	0	0	0
Assistant Vice President	Chen, Chung-Ming (Dismissed On 06/06/2016)	0	0	0	0
Chairman	Sun, Huang-Hsiang (Dismissed On 06/24/2016)	0	0	0	0
Senior Vice President	Tung, Hsiao-Hsing (Dismissed On 06/27/2016)	0	0	0	0
President	Chang, Yu-Hern (Dismissed On 06/24/2016)	0	0	0	0
Director	China Aviation Development Foundation Representative: Lee, Cho-Ping (Dismissed On 07/26/2016) Lai, Ching-Chyi (Dismissed On 07/26/2016) Ko, Tso-Liang (Dismissed On 08/09/2016)	27,000	0	0	0
Senior Vice President	Yang, Steve Chen (Dismissed On 08/09/2016)	0	0	0	0
Assistant Vice President	Tseng, Yu-Ping (Dismissed On 08/15/2016)	0	0	0	0
Vice President	Tong, Huai-Ming (Dismissed On 08/16/2016)	0	0	0	0
Vice President	Cheng, Tien-Yuan (Dismissed On 08/16/2016)	0	0	0	0
Vice President	Chang, Cheng-Hao (Dismissed On 08/16/2016)	0	0	0	0
Vice President	Yu, Chih (Dismissed On 09/20/2016)	0	0	0	0
Assistant Vice President	Fang, Yuan-Hua (Dismissed On 09/26/2016)	0	0	0	0
Vice President	Huang, Ta-Fang (Dismissed On 12/21/2016)	0	0	0	0
Vice President	Chung, Ming-Jyh (Dismissed On 01/03/2017)	0	0	0	0
Assistant Vice President	Kuey, Kuo-Ching (Dismissed On 01/26/2017)	0	0	0	0
Assistant Vice President	Teng, Shu Hua (Dismissed On 02/21/2017)	0	0	0	0
Vice President	Chung, Wan-Chun (Dismissed On 03/01/2017)	0	0	0	0
Assistant Vice President	Yeh, Jin-Fu (Dismissed On 03/13/2017)	0	0	0	0
Assistant Vice President	Wei, Shih-Kai (Dismissed On 03/21/2017)	0	0	0	0

Note 1: Refers to major shareholders holding more than 10% of company shares.

3.7.1 Shares Trading with Related Parties: Not Applicable.

3.7.2 Shares Pledge with Related Parties: Not Applicable.

3.8 Relationships among the Top Ten Shareholders

April 24, 2017

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
			Shares	%	Shares	%	Shares	%	
	Shares	%	Shares	%	Shares	%	Name	Relationship	
China Aviation Development Foundation (Representative : Wang, Kwo-Tsai)	1,867,341,935	34.13%	0	0%	0	0%	None	None	None
National Development Fund, Executive Yuan (Representative : Dr. Chen, Ten-Jy)	519,750,519	9.50%	0	0%	0	0%	None	None	None
Chunghwa Telecom Co., Ltd. (Representative : Cheng, Yu)	263,622,116	4.82%	0	0%	0	0%	None	None	None
China Airlines Ltd. Employee Stock Ownership Trust Plan	52,840,352	0.97%	0	0%	0	0%	None	None	None
Cathay Life Insurance Co., Ltd. (Representative : Tsai, Hong-Tu)	49,500,000	0.90%	0	0%	0	0%	None	None	None
Citibank Taiwan Was Commissioned And Management Investor Account Of Dimension Emerging Market Estimate Fund	47,644,353	0.87%	0	0%	0	0%	None	None	None
Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	42,870,050	0.78%	0	0%	0	0%	None	None	None
Ocean Investment Holding Co., Ltd. (Representative : Wang, Yun-E)	42,477,000	0.78%	0	0%	0	0%	None	None	None
New Labor Pension Fund	37,758,000	0.69%	0	0%	0	0%	None	None	None
Ishares Msci Emerging Markets Minimum Volatility ETF	35,445,828	0.65%	0	0%	0	0%	None	None	None

3.9 Ownership of Shares in Affiliated Enterprises

Dec 31, 2016

Unit: shares; %

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
1. Cal-Dynasty International, Inc.	2,614,500	100.00	-	-	2,614,500	100.00
1A Dynasty Properties Co., Ltd.	-	-	5,000	100.00	5,000	100.00
1B Dynasty Hotel Of Hawaii, Inc.	-	-	400,000	100.00	400,000	100.00
2. Cal-Asia Investment Inc.	7,172,346	100.00	-	-	7,172,346	100.00
2A Eastern United International Logistics (Holdings) Ltd.	-	-	1,050,000	35.00	1,050,000	35.00
2B Airport Air Terminal (Xiamen) Co., Ltd.	-	-	(Note 1)	28.00 (Note 2)	(Note 1)	28.00 (Note 2)
2C Airport Air Cargo Service(Xiamen) Co., Ltd.	-	-	(Note 1)	28.00 (Note 2)	(Note 1)	28.00 (Note 2)
2D Taikoo (Xiamen) Landing Gear Services Co., Ltd.	-	-	(Note 1)	5.83	(Note 1)	5.83
2E Taikoo Spirit Aerosystems (Jinjiang) Composite Co., Ltd.	-	-	(Note 1)	5.45	(Note 1)	5.45
3. Hwa Hsia Company Ltd.	77,270	100.00	-	-	77,270	100.00
4. Freighter Prince	1,000	100.00	-	-	1,000	100.00
5. Freighter Princess	1,000	100.00	-	-	1,000	100.00
6. Yestrip Co., Ltd.	1,600,000	100.00	-	-	1,600,000	100.00
7. Cal Park Co., Ltd.	150,000,000	100.00	-	-	150,000,000	100.00
8. Cal Hotel Co., Ltd.	46,500,000	100.00	-	-	46,500,000	100.00
9. Taiwan Aircraft Maintenance And Engineering Co., Ltd.	16,000,000	100.00	-	-	16,000,000	100.00
10. Mandarin Airlines, Ltd.	188,154,025	93.99	-	-	188,154,025	93.99
11. Sabre Travel Network (Taiwan) Ltd.	13,021,042	93.93	-	-	13,021,042	93.93
12. Tiger Taiwan Co., Ltd.	160,000,000	80.00	20,000,000	10.00	180,000,000	90.00
13. China Pacific Laundry Services Ltd.	13,750,000	55.00	-	-	13,750,000	55.00
14. Taiwan Air Cargo Terminal Ltd.	135,000,000	54.00	12,500,000	5.00	147,500,000	59.00
15. Dynasty Holidays, Inc.	408	51.00	-	-	408	51.00
16. China Pacific Catering Services Ltd.	43,911,000	51.00	-	-	43,911,000	51.00
17. Taoyuan International Airport Services Co., Ltd.	34,300,000	49.00	-	-	34,300,000	49.00
18. Taiwan Airport Service Co., Ltd.	20,626,644	47.35	469,755	1.08	21,096,399	48.43
18A Taiwan Airport Service (Samoa) Co., Ltd.	-	-	(Note 1)	100.00	(Note 1)	100.00
19. Kaohsiung Airport Catering Services Ltd.	14,329,759	35.78	-	-	14,329,759	35.78
20. Global Sky Express Ltd.	250,000	25.00	-	-	250,000	25.00
21. Asian Compressor Technology Services Co., Ltd.	7,732,200	24.50	-	-	7,732,200	24.50
22. Science Park Logistics Co., Ltd.	13,293,000	26.00	-	-	13,293,000	26.00
23. China Aircraft Services Limited.	28,400,000	20.00	-	-	28,400,000	20.00
24. Jardine Air Terminal Services Limited	12,000,000	15.00	-	-	12,000,000	15.00
25. Everest Investment Holdings Ltd.	(Note 3)	13.59	-	-	(Note 3)	13.59
26. Chung-Hwa Express Co., Ltd.	1,100,000	11.00	-	-	1,100,000	11.00

Note 1: This company has not issued shares.

Note 2: CAL-Asia Investments Inc. directly holds 14% stake, Taiwan Airport Service (Samoa) Co., Ltd. directly holds 14% stake.

Note 3: Includes 1,359,368 shares of common stock and 135,937 shares of preferred stock.

Capital Overview

4.1 Capital and Shares

4.2 Corporate Bonds

4.3 Other Depository Receipts

4.4 Financing Plans and Implementation

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares:

APR 24, 2017

Unit: Thousand shares; NT\$ thousands

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Sources of Capital	Approval Date and Document No. by Ministry of Economic Affairs
12/2015	10	6,000,000	60,000,000	5,470,000	54,700,000	Corporate Bond Conversion NT\$ 86,169,930	December 8, 2015 Jing-Shou-Shang-Zi No. 10401250360

Note: There was no "Capital Increase by Assets Other than Cash".

B. Type of Stock:

APR 24, 2017; Unit: Thousand shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares (Note)	
Common Stock Inscribed	5,470,891	529,110	6,000,000	Listed Stocks

Note: On June 18, 2014, the Company approved revision to the Articles of Association at the Shareholders' Meeting that adjusted the total authorized capital to 7 billion shares.

4.1.2 Status of Shareholders

APR 24, 2017; Unit: shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of	4	25	281	734	132,886	133,930
Shareholding	519,750,824	143,588,934	2,486,712,419	828,376,150	1,492,461,822	5,470,890,149
%	9.50%	2.62%	45.46%	15.14%	27.28%	100.00%

4.1.3 Shareholding Distribution Status

APR 24, 2017; Unit: shares

Class of Shareholding	Number of Shareholders	Shareholding	Percentage(%)
1-999	35,682	11,972,809	0.22%
1,000-5,000	57,419	140,181,013	2.56%
5,001-10,000	17,250	138,524,423	2.53%
10,001-15,000	6,302	78,601,946	1.44%
15,001-20,000	4,693	87,338,256	1.60%
20,001-30,000	4,094	104,341,799	1.91%
30,001-40,000	2,060	73,648,752	1.35%
40,001-50,000	1,506	70,586,549	1.29%
50,001-100,000	2,662	194,486,013	3.55%
100,001-200,000	1,172	166,602,280	3.05%
200,001-400,000	500	141,368,647	2.58%
400,001-600,000	177	87,688,608	1.60%
600,001-800,000	81	57,334,317	1.05%
800,001-1,000,000	73	66,487,922	1.22%
1,000,001 or over	259	4,051,726,815	74.05%
Total	133,930	5,470,890,149	100.00%

4.1.4 List of Major Shareholders:

APR 24, 2017; Unit: shares

Shareholder's Name	Shareholding	Shares	Percentage
China Aviation Development Foundation		1,867,341,935	34.13%
National Development Fund, Executive Yuan		519,750,519	9.50%

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: thousand shares; NT\$

Items		Year	2015 (Distributed in 2016)	2016 (Distributed in 2017)	2017 (As of APR 24)(Note 9)
Market Price per Share	Highest Market Price		18.25	12.05	10.70
	Lowest Market Price		10.65	9.07	9.20
	Average Market Price		13.82	10.22	9.92
Net Worth per Share	Before Distribution		10.65	10.20	9.46
	After Distribution		10.19	-	-
Earnings per Share	Weighted Average Shares		5,432,728	5,468,002	5,468,002
	Diluted Earnings Per Share		1.06	0.10	(0.69)
Dividends per Share (Note 8)	Cash Dividends		0.458522382 (Note 10)	-	-
	Stock Dividends	Dividends from Retained Earnings	- (Note 10)	-	-
		Dividends from Capital Surplus	- (Note 10)	-	-
	Accumulated Undistributed Dividends (Note 4)		- (Note 10)	-	-
Return on Investment	Price / Earnings Ratio (Note 5)		12.80 (Note 10)	101.40	-
	Price / Dividend Ratio (Note 6)		29.60 (Note 10)	N/A(Note 11)	-
	Cash Dividend Yield Rate (Note 7)		3.38% (Note 10)	N/A(Note 11)	-

* If shares are distributed in connection with a capital increase out of earnings or capital reserve, further disclose information on market prices and cash dividends retroactively adjusted based on the number of shares after distribution.

Note 1: Annual Average Market Price = Annual Turnover Value / Trading Volume.

Note 2: Based both on the number of issued shares at the end of the year, and on the distribution decided on at the Shareholders' Meeting the following year.

Note 3: For those requiring retroactive adjustment due to stock grants, both the pre-and post-adjustment EPS should be listed.

Note 4: In issuing equity securities, provisions may be made to accumulate undistributed dividends for the year and postpone distribution until a year when profit is made. The dividends accumulated over the period ending in the year of distribution should be disclosed.

Note 5: P/E Ratio = Average market price of a share in the current year / EPS.

Note 6: P/D Ratio = Average market price of a share in the current year / cash dividend per share.

Note 7: Cash dividend yield = cash dividend per share / average market price of a share in the current year.

Note 8: In accordance with Taiwan Stock Exchange regulations, treasury share effects have already been considered.

Note 9: Net worth per share and EPS are calculated based on the financial statement for the most recent quarter that has been verified by an accountant. All other fields are based on the current year data through the publication date of the annual report. As of publication of this report, the Q1 2017 financial information has not been reviewed by Deloitte & Touche yet.

Note 10: 2015 Earnings Distribution Proposal was passed at the 5th meeting of the 20th Board session held on March 25, 2016 and was reported to the Shareholders' General Meeting.

Note 11: As there was an operating loss in 2016, there is no surplus available for distribution.

4.1.6 Dividend Policy and Implementation Status

A. Dividend Policy:

The CAL Articles of Association outlines the below dividend policy:

If the company makes a profit over the year, an amount of no less than 3% of the profit must be distributed as employee compensation. If the Company has accumulated losses, funds must be retained to offset the deficit.

The aforementioned employee compensation is primarily disbursed as stock or cash and the resolution must be approved at a meeting of the Board of Directors with two-thirds of directors in attendance and must receive support from half of participating members.

Should the Company make a profit over the year, said profit must first be used to pay all taxes and offset accumulated losses, then 10% of the remaining amount is to be set aside as a legal reserve. After setting aside or reversing a special reserve, any remaining amount along with accumulated undistributed earnings shall be distributed as shareholder dividends and bonuses according to a resolution drawn up by the Board and approved by the Shareholders' Meeting that follows the below principles:

- (1) Not less than 50% of the amount shall be distributed as shareholder dividends and bonuses. After pretax profits are deducted as outlined above, should the amount left not be sufficient for distribution, the difference will be made up by accumulated undistributed profit.
- (2) In the case of a yearly loss, depending on financial, operation, and management considerations, all or part of the legal reserve may be distributed as new stock or cash as prescribed by law and competent authority regulations.
- (3) Dividends and bonuses are distributed as stock or cash, with cash dividends making up no less than 30% of the total distributable dividends.

B. Proposed Distribution of Dividend:

The Deficit Compensation Proposal was approved by the Board of Directors on March 30, 2017, which determined no dividends would be distributed for 2016.

C. No significant change in expected future dividend policy

4.1.7 Impact of Stock Dividends issuance on Company's Business Performance and Earnings per Share: Not Applicable.

4.1.8 Employees' Compensation and Directors' Remuneration

A. Articles of Association regulations: See 4.1.6 Dividend Policy and Implementation Status.

B. The basis for estimating the amount of employee compensation and director bonuses, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

As stipulated in the Company's Articles of Association, directors are not awarded bonuses. Should the actual amount of employee compensation, due to Board of Director resolution prior to the publication date of the annual individual financial statement, differ significantly from the estimated value of employee compensation, the difference is charged to the earnings of the year making the initial estimate. If there are changes in the amount after the publication of the annual individual financial statement, the adjustment shall be recorded in the following year as a result of change in accounting estimate.

C. Board approved employee compensation and director bonus proposal:

(1) Amount of employee bonuses (including stock and cash) and director bonuses distributed. If the actual amount distributed differs from the original estimated amount, the difference, reason, and how this was handled should be disclosed:

On January 17, 2017, the Company's Board of Directors approved the 2016 Employee Compensation Proposal, which specified distribution of employee compensation totaling NT\$382,318,000. As stipulated in the Company's Articles of Association, directors are not awarded bonuses. If the above estimated amount is different from the actual distributed amount, the adjustment shall be recorded in the following year as a result of change in accounting estimate.

(2) The amount of any proposed distribution of employee stock bonuses, and the size of such an amount as a percentage of the sum of the net income for the current period and total employee bonuses: Not Applicable.

E. The actual employee compensation and director bonuses distributed for the previous year (2015) (including number of shares distributed, value, and stock price). Should there be a discrepancy with the proposed amount of employee compensation and director bonuses, the difference, reason, and how this was handled should be stated:

(1) Employee compensation: None.

(2) Director bonuses: Not Applicable.

4.1.9 Buyback of Treasury Stock: None.

4.2 Bonds

4.2.1 Corporate Bonds:

APR 24, 2017

Corporate Bond Type	Domestic Unsecured straight bond (102)	Domestic Unsecured convertible bond (102)	Domestic Unsecured straight bond (105-1)	Domestic Unsecured straight bond (105-2)
Issue date	01/17/2013	12/26/2013	05/26/2016	09/27/2016
Denomination	NT\$1,000,000	NT\$100,000	NT\$1,000,000	NT\$1,000,000
Issuing and transaction location	Republic of China	Republic of China	Republic of China	Republic of China
Issue price	Par	Par	Par	Par
Total price	NT\$10,900,000,000	NT\$6,000,000,000	NT\$5,000,000,000	NT\$5,000,000,000
Coupon rate	Tranche A: 1.60% p.a.; Tranche B: 1.85% p.a.	0.00% p.a.	1.19% p.a.	1.08% p.a.
Tenor	Tranche A: 5 years Maturity: 01/17/2018 Tranche B: 7 years Maturity: 01/17/2020	5 years Maturity: 12/26/2018	5 years Maturity: 05/26/2021	5 years Maturity: 09/27/2021
Guarantee agency	Not applicable	Not applicable	Not applicable	Not applicable
Consignee	CTBC Bank Trust Department	CTBC Bank Trust Department	Hua Nan Commercial Bank	Hua Nan Commercial Bank
Underwriting institution	Not applicable	KGI Securities	YuanTa Securities	MasterLink Securities
Certified lawyer	Kuo, Hui-Chi (Hsi Endai Lawyer Office)	Chiu, Ya-Wen (Handsome Attorney-at-Law)	Kuo, Hui-Chi (Ture Honesty International Law Office)	Kuo, Hui-Chi (Ture Honesty International Law Office)
CPA	Huang, Jui-chan, Chen, Li-Chi (Deloitte & Touche)	Not applicable	Huang, Jui-chan (Deloitte & Touche)	Yang, Chen-Hsiu (Deloitte & Touche)
Repayment method	Tranche A: Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year Tranche B: Repayment of 50% of the principal in the sixth year and the remaining 50% in the seventh year	According to the offering of Domestic Unsecured convertible bond (102) section 6	Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year	Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year
Outstanding principal	NT\$8,200,000,000	NT\$1,697,000,000	NT\$5,000,000,000	NT\$5,000,000,000
Terms of redemption or advance repayment	None.	According to the offering of Domestic Unsecured convertible bond (102) section 18 and 19	None.	None.
Restrictive clause	None.	None.	None.	None.
Name of credit rating agency, rating date, rating of corporate bonds	None.	None.	None.	None.
Other rights attached	As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities Issuance and conversion (exchange or subscription) method	Not applicable	NT\$3,315,700,000	Not applicable
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	Not applicable	(Note)	Not applicable	Not applicable
Transfer agent	None.	None.	None.	None.

Note: Based on an conversion price of NT\$11.64 and assuming a full conversion of Company bonds, the shareholding ratios of the three largest shareholders, China Aviation Development Foundation, National Development Fund(Executive Yuan), and Chunghwa Telecom Co., Ltd., would go down from 48.45% to 47.19%. The ownership structure would not be significantly changed nor would shareholder rights and interests be seriously impacted.

4.2.2 Corporate Bonds Undergoing Private Placement: None.

4.2.3 Convertible Bonds:

Unit: NT\$

Types of Corporate Bonds		Fifth Tranche of Unsecured Convertible Corporate Bonds	
Year		2016	The current year through April 24, 2017
Item			
Convertible Bond Market Price	Highest	112.00	106.50
	Lowest	100.20	100.50
	Average	102.43	103.45
Conversion Price (Note)		12.24 (July 30, 2016 and earlier) 11.64 (July 31, 2016 and later)	11.64
Issuance date and conversion price at the time of issue		Issued on December 26, 2013 with a conversion price of NT\$ 12.24.	Issued on December 26, 2013 with a conversion price of NT\$ 12.24.
Conversion method		Issue new shares.	Issue new shares.

Note: Because a cash dividend was distributed in 2016, according to the terms of issuance and conversion for the Company's fifth tranche of unsecured convertible corporate bonds the conversion price should be adjusted. Therefore on July 31, 2016, the conversion price was adjusted from NT\$12.24 to NT\$11.64.

4.2.4 Exchangeable Bond, Shelf Registration, Shelf Registration: None.

4.3 Other Securities-Related Issues

4.3.1 Preferred shares: None.

4.3.2 Global Depository Receipts: None.

4.3.3 Employee Stock Options: None.

4.3.4 Employee Restricted Stock: None.

4.3.5 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.4 Financing Plans and Implementation

As of April 24, 2017, the use of funds earned through previously issued securities are progressing as planned and are in line with expected results.

Operational Highlights

5.1 Business Activities

5.2 Market and Sales Overview

5.3 Human Resources

5.4 Environmental Protection Expenditure

5.5 Labor Relations

5.6 Important Contracts

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main areas of business operations

- (1) Air passenger transport and regularly-scheduled and non-scheduled international contract charter flight services.
- (2) Air cargo services.
- (3) Ground handling services for international civil airports and transiting aircraft.
- (4) In-flight merchandise sales.
- (5) Provision of in-flight meal and beverage services and other related products.
- (6) Laundry services for textiles and clothing used aboard aircraft and general laundry services for the hospitality industry.
- (7) Warehousing services for import, export, or transit cargo.
- (8) Aircraft maintenance.
- (9) Civil aviation personnel training.
- (10) Other: In addition to permitted operations, the Company may engage in any other operations not prohibited or restricted by law.

B. Revenue distribution

Unit: NT\$ thousands

Item	2016	
	Net Revenue	Proportion of Revenue
Passenger Revenue	95,282,373	68%
Cargo Revenue	35,721,425	25%
Other	10,075,309	7%
Total	141,079,107	100%

C. Main products

- (1) Passenger service: Air passenger transport and regularly-scheduled and non-scheduled contract international charter flight services.
- (2) Cargo service: Transport services for cargo, courier, mail, and packages.
- (3) Ground services: Handling of luggage and cargo, aircraft cleaning, and ground support equipment.
- (4) In-flight sales: Providing in-flight duty free sales services.
- (5) Airline catering: Providing meal services to airlines.
- (6) Warehousing and logistics services: Provide airfreight forwarding and logistics services.
- (7) Aircraft maintenance services: Airframe, engine, and aircraft component maintenance.
- (8) Tourism and leisure services: General hotel industry and travel services.
- (9) Investment and leasing services: Engaged in real estate investment, building management, and leasing.
- (10) Civil aviation personnel training: Provide maintenance training courses, develop professional maintenance personnel.

D. Product Development

(1) All Non-Stop Flights on European Routes

With the introduction of new Airbus A350-900 aircraft into the fleet, non-stop flights to Amsterdam and Rome have been added to our existing non-stop service to Vienna and Frankfurt. Now all four European routes are non-stop and flown on the newly introduced aircraft. There are 16 flights each week and on average two non-stop flights per day to Europe. In coordination with inter-European flights offered by our codeshare partners, China Airlines provides the most-comprehensive Taiwan to Europe flight network of any airline. This will attract more business travelers and tourists to visit Europe, further consolidating China Airlines as the leader in the Taiwan to Europe airline market.

(2) Upgraded service on the A350: A feast for the senses at 30,000 feet

To enhance the unique identity of the China Airlines brand, the A350's contemporary, next generation cabin designs are complimented by different ambient lighting moods and feature distinctive boarding and deplaning music and a bespoke fragrance. The Sky Bistro serves Tapas and other creative delicacies. Together, these youthful, innovative features bring Europe to travelers before even taking off, creating a whole new experience.

(3) Strengthening our long-haul and regional networks

In addition to adding aircraft to our long-haul fleet, CAL is also drafting a narrow-body aircraft introduction plan in response to market demand growth. This will enhance the capacity of our route networks in North America, Europe, Southeast Asia, and Northeast Asia. Not only can we provide Taiwanese customers with a wider variety of choices, more convenient transfer flights will strengthen Taiwan's position as a Northeast Asia transit hub.

5.1.2 Industry Overview

A. State of the industry and future development

(1) Economic growth

According to the latest forecast published by Oxford Economics, the global economic growth rate in 2017 will be 2.6%, slightly higher than 2016's rate of 2.3%, which shows higher optimism towards 2017 growth than the previous year. However, Taiwan's primary trading nations, China and Japan, are seeing slowed or even near zero economic growth, so concerns remain about the overall economic growth momentum.

(2) Oil prices

Fuel costs make up the bulk of operating costs in the aviation industry and oil prices have decreased significantly in recent years helping reduce operating costs in the industry and are expected to remain low in the short term. Oil price fluctuations cannot be ignored and in December 2016, OPEC and non-OPEC oil producing nations agreed for the first time to a global pact to limit supply. In the long term, international fuel prices are still expected to rise.

(3) Air passenger market

According to the December 2016 International Air Transport Association (IATA) global aviation market outlook report, from 2012 through 2015 global demand growth outstripped supply leading to higher passenger load factors. Since then, however, rapid development of the air passenger transport market has led to higher overall supply growth rates compared to demand growth. IATA estimates that in 2017 global RPK (revenue passenger kilometers) will grow by 5.1%, while ASK (available seat kilometers) will grow 5.6% leading to a downward trend in passenger load factors. This trend will also be seen in the Asia-Pacific region with the estimated supply and demand growth rates reaching 7.6% and 7.0% respectively.

(4) Air cargo market

Due to weak air cargo demand in recent years and increased cargo capacity on passenger airliners, there is continued oversupply in the air cargo market. IATA estimates that in 2017 cargo demand growth will reach approximately 3.5% while AFTK (available freight tonne kilometers) will grow by 5.0% resulting in a cautiously optimistic outlook regarding the overall air freight market development.

B. Relationship between upstream, midstream, and downstream firms

The air transport service industry primarily provides transportation for passengers and cargo. These operations rely on the support and assistance of upstream, midstream, and downstream industries that enable us to provide comprehensive services and meet our customers' needs.

(1) Upstream industries

Primarily aircraft, aircraft engine, and ground service equipment (such as towing vehicles and loading vehicles and equipment needed on the apron) manufacturers. Currently, in addition to purchasing aircraft, Taiwanese airlines also utilize leasing to add to their fleets, so the aircraft leasing industry is also an upstream industry for air transport providers.

(2) Midstream industries

Primarily airlines themselves and related support industries such as the oil industry that provides aviation fuel, the aircraft maintenance industry that repairs and maintains airlines' aircraft and components, and the airline catering industry that provides in-flight meals. In response to the changing needs of downstream industries, the air transport industry's strategic adjustments in their operating scale, fleets, or flight networks will also affect the development of upstream industries.

(3) Downstream industries

In terms of passenger transport, the air transport industry primarily serves the public and travel agencies, while cargo transport services are provided to the courier and freight forwarding industries. As a member of the air transport industry, the needs of downstream customers are at the core of the CAL's product and services planning. Our mission is to provide safe, convenient, and comprehensive services.

C. Product development trends

(1) Air cargo market liberalization, airlines continue to add capacity

As integration within the global airline industry becomes more mature, air cargo liberalization is expanding within the Asia-Pacific region. The USA, Japan, Singapore, Malaysia, and Thailand have already opened their skies to Taiwanese carriers. In recent years, Korea, Vietnam, and the Philippines have considerably relaxed regulations, enabling further expansions in destinations and capacity. However, in addition to domestic airlines continuing to expand their networks, low-cost and foreign carriers are also adding capacity making the industry increasingly competitive. China Airlines is fully aware of these trends and will continue to develop new business opportunities and expand market share.

(2) Taiwan Taoyuan Airport expansion, a new East Asian hub

In recent years, the government has aimed to develop Taiwan Taoyuan Airport into an East Asian transit hub. In addition to actively expanding policies and freedoms of the air, the R.O.C. government promulgated the "Taoyuan International Airport Park Master Conceptual Plan" and "Implementation Plan" in 2011 and 2012 respectively and successively launched Terminal 1 renovations, airport roadway improvements, and plans for Terminal 3 and satellite terminal, and a third runway. China Airlines is working in coordination with government policies to gradually expand fleet capacity and create a new transfer hub in Asia.

(3) Future freight sources, the rise of new industries and emerging markets

Impacted by a weak global economy and sluggish international trade, short-term air cargo growth is limited. This is especially true for semiconductor and electronic components, which make up the bulk of air cargo, but whose growth has recently fallen sharply. However, emerging industries such as e-commerce, cold chain logistics, and biotechnology medical products and emerging markets including ASEAN nations, India, and Central America are bucking these slowing trends. CAL will take advantage of our third highest cargo capacity in Asia to establish an Asia-Pacific cargo transshipment center and grow Taiwan's share of the air cargo market.

(4) Increased passenger aircraft payload, improved cargo carrying capacity

With advances in aeronautic engineering, the capacity of passenger airliner cargo holds have increased dramatically. Compared to the 747-400, the new 777-300ER airliner can hold 45% more cargo. Other airlines in the industry also primarily utilize passenger airliner cargo capacity and will need to adjust dedicated cargo plane capacity in line with these market changes. In the first half of 2016, all of China Airlines' 10 new 777-300ER passenger aircraft came online, while the new A350s were also gradually introduced in the second half of the year. In the future, we will strive to make the most efficient possible use of lower-hold space on airliners.

D. Product competition

China Airlines primarily operates international passenger and cargo air transport services. Because of our continued focus on stable revenue and cost controls, CAL is not only the Taiwan market leader, but also an important player on the international stage. According to R.O.C. Civil Aeronautics Administration statistics, China Airlines is the market leader in both passenger and cargo air transport. Also, released in 2016, the IATA 2015 international passenger and cargo capacity rankings showed that China Airlines was 33rd in the world and 11th in the Asia-Pacific region for passenger air transport with 36.533 billion Revenue Passenger Kilometers (RPK). While cargo capacity reached 5.343 billion Freight Revenue Ton Kilometers (FRTK) earning China Airlines 10th place globally and 4th place in the Asia-Pacific region.

Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo in 2016

Airline	Passenger	Cargo
China Airlines	25.04%	38.12%
EVA Air	21.48%	24.84%
TransAsia Airways	3.18%	0.56%
Mandarin Airlines	2.61%	0.86%
UNI Air	1.50%	0.50%
Far Eastern Air Transport	0.45%	-
Tigerair Taiwan	2.72%	0.04%
V Air	0.83%	-
Other-Foreign Carriers	42.19%	35.08%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2016 - Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

IATA Global International Route Passenger and Cargo Rankings 2015

Passenger (Passenger-Kilometers) Rankings Unit: 1 million			Cargo (Ton-Kilometer) Rankings Unit: 1 million		
1	Emirates	251,190	1	Emirates	12,157
2	United Airlines	145,543	2	Cathay Pacific Airways	9,935
3	Lufthansa	141,329	3	Korean Air	7,733
4	British Airways	137,455	4	Qatar Airways	7,660
5	Delta Air Lines	133,949	5	Federal Express	7,242
6	Air France	131,281	6	Lufthansa	6,884
7	Ryanair	125,194	7	Cargolux	6,309
8	American Airlines	113,965	8	Singapore Airlines	6,083
9	Cathay Pacific Airways	108,868	9	United Parcel Service	5,412
10	Qatar Airways	108,327	10	China Airlines	5,343
11	Turkish Airlines	101,359	11	Air China	4,644
12	Singapore Airlines	93,623	12	Etihad Airways	4,400
13	KLM	93,159	13	AirBridgeCargo Airlines	4,069
14	Etihad Airways	83,227	14	British Airways	4,050
15	easyJet	74,583	15	China Southern Airlines	3,768
16	Qantas Airways	73,211	16	China Eastern Airlines	3,720
17	Korean Air	68,224	17	Asiana Airlines	3,578
18	Air Canada	61,968	18	EVA Air	3,575
19	Thai Airways International	56,876	19	KLM	3,567
20	Air China	52,605	20	Air France	3,415
21	China Southern Airlines	46,976	21	All Nippon Airways	3,324
22	Aeroflot Russian Airlines	46,794	22	Polar Air Cargo	3,205
23	Lan Airlines	42,300	23	Nippon Cargo Airlines	2,941
24	Iberia	41,883	24	United Airlines	2,911
25	Air Berlin	41,039	25	American Airlines	2,789
26	China Eastern Airlines	39,558	26	Turkish Airlines	2,699
27	All Nippon Airways	39,032	27	Lan Airlines	2,695
28	Norwegian	37,749	28	Delta Air Lines	2,505
29	Japan Airlines	37,646	29	Thai Airways International	2,065
30	Asiana Airlines	37,466	30	Qantas Airways	1,791
31	Virgin Atlantic Airways	36,665	31	Japan Airlines	1,784
32	Saudi Arabian Airlines	36,555	32	Saudi Arabian Airlines	1,725
33	China Airlines	36,533	33	Malaysia Airlines	1,680

Source: IATA WATS 2016

5.1.3 Research and Development

A. Costs of R&D investment and successfully developed technologies or products

From January 1, 2016 through the publication date of this report, the Company invested approximately NT\$155 Million in research and development. The following table summarizes the technologies and products developed:

Project	R&D Project Description
Enterprise Big Data Platform	In order to integrate the existing decentralized data warehousing system and expand corporate business intelligence analysis, an industry-university collaboration between CAL and National Taiwan University and National Chengchi University is educating and recruiting talented big data analysts. The four main areas of focus are customer service, operations monitoring, revenue management, and cost controls (which include market analysis, passenger source analysis, purchasing behavior analysis, flight revenue estimation analysis, fuel management, and budget management). Individual operating units at CAL can now collect information, perform targeted analysis, and publish their final reports and decisions, which enhances the value of data warehousing and business intelligence.
Redesign of the Official Cargo Website	The China Airlines Cargo Website was relaunched with new features to meet the needs of mobile users on a variety of devices and upgrade the user experience on touchscreen devices to improve ease of use, and increase the repeat visit rate and overall page views. In addition, a Website Content Management System was added to enable real-time maintenance to easily keep content correct and up-to-date. The new website went live on July 25, 2016 with Traditional Chinese, Simplified Chinese, and English versions available for both desktop and mobile formats.
Next Generation Passenger Transport Operations System Integration Platform	In coordination with the introduction of the next generation passenger transport operations system, we also set up a system integration platform to support the integration of the peripheral application system and passenger transport operations system. We also established an operations database for passenger reservations, ticket issuance, and airport check-in related activities to ease the subsequent development and utilization of passenger application services.
Mobile Maintenance Operating System	CAL is committed to upgrading airplane maintenance capabilities and quality. By creating mobile applications for flight information, fuel orders, and task assignment operations, we can provide correct, real-time flight information, fuel level information, and in-time task assignment to reduce working hours and fuel consumption while keeping tabs on work progress. This system will streamline and upgrade maintenance operations.
Construction of an Integrated Control Network	China Airlines constructed an information technology system to assist on-site operations and integrate with the system operation cycle to establish an integrated control information system that combines operations and centralizes information. Through four function modules: flight status check, control operations support information, control operations record check and civil aviation authorities permit management, we can “integrate upstream and downstream system information flow to ensure that all decision are based on real-time, correct information to guarantee the quality of decision making”, “strengthen ground-to-air support capabilities to improve flight safety” and “implement operations reviews and human capital quality management to continuously improve flight control operations.”
New Reliability Analysis Control System	CAL established a new reliability analysis control system, which integrates maintenance shortcomings, reasons for delays, abnormal situations, and overhaul issues. Through multidimensional analysis, we can not only regularly provide reports to the Civil Aeronautics Administration, maintenance staff can also quickly determine the reasons for a problem and formulate solutions to improve reliability of aircraft operations and reduce maintenance costs.
Construction of a Postal Account Distribution	In order to integrate the Company’s global postal accounts, we constructed a postal account distribution system to accurately account for postal income, flight routes and segments, and postal delivery transactions. The system accelerates account operations, improves management efficiency, saves

System	manpower, and strengthens internal controls.
Construction of Phase 1 of the Next Generation Mobile Platform (Mobile 3.0)	The Mobile 3.0 App utilizes scenario-based interactive design to meet passenger needs at various points in their travels. At the appropriate time in their itinerary, the app reminds passengers to complete necessary travel-related procedures, and enables passengers to book and purchase tickets, manage their itinerary, perform self-service check-in, and check baggage, so passengers can instead focus on enjoying their journey.
Strengthening the Security of Member Personal Information	In order to better protect the personal information of Dynasty members, in May 2016, we established member information modification capabilities and set up a personal information modification approval process within our internal member system to effectively reduce the risk of front line staff directly accessing member data. Furthermore, we proceeded with an on-site audit of the management and security of our member system by SGS (Societe Generale de Surveillance) Taiwan Ltd. and in October 2016 we officially received BS10012 (Personal Information Management (UK)) certification.
Mobile Interactive Flight Notification System	In order to improve the competitiveness of our mobile services, the Company has developed flight information push notification capabilities for our 3rd generation app. To expand communication channels with our passengers beyond text messages and email, we have added support for push notifications on mobile devices to provide passengers with information about their flight such as schedule changes, flight cancellation, seat changes, and boarding gate information.
Online Ticket Marketing Campaign	Integrated a variety of online marketing information services with the Amadeus online ticketing (eRetail/MERCI) system to achieve diversified online ticket marketing in coordination with credit cards, enterprises, and banks resulting in increased online sales. From January through December 2016, a total of 798,940 tickets were sold through the China Airlines website, an increase of 188,083 tickets or 30.8% over the previous year (610,857 tickets).
Strengthening Family Couch Sales Channels	In order to promote the Family Couch product, additional sales channels were added and booking was made available through GDS PNR, so others in the travel industry can offer more products to their customers. Since the service went live in June 2016 through April 2017, sales increased by 104% to a total of more than 5300 Family Couch groups. A Dynasty member mile redemption feature was also added, enabling members to use miles to upgrade to the Family Couch. Since this option became available in February 2017, 8 upgrades have been made at a cost of 180,000 miles.

B. Future R&D Projects

(1) In order to meet future development needs, China Airlines will continue to invest in R&D projects. Over the next two years, we plan to invest a total of NT\$225 million into R&D. The following table summarizes future projects:

Project	Future R&D Project Description	Estimated Completion Date
Construction and Promotion of the Passenger Self-Service Bag Drop System	With advances in smart airport technologies, airports around the world are installing self-service bag drop equipment for departing passengers. This self-service option provides passengers with a whole new travel experience and reduces check-in waiting time. In the spirit of IATA Fast Travel self-service options, the bag drop system reduces staffing requirements and increases the efficiency of ground services. As airports adopt self-service bag drop technology, CAL will complete system integration and provide passengers with this new service.	November 2017 As of the date of publication of this report, 20% has been completed

Construction of a Dispatch Service Management System	CAL is constructing an information system for the active flight plan system's assignment dispatch mode, to provide a user-friendly interface that allows dispatch managers to quickly set up the three key related elements: system operation flight work schedule, flight plan required assignments, and qualified human resources to be assigned. Creating a systematic mechanism for completing preliminary assignments, assignment adjustments, and dispatcher shift change handovers will effectively raise efficiency of staff allocation. By achieving a consolidated process for assigned personnel quality management (System Control Network), dispatch assignments (this project), dispatch operations (Dispatch Control System), we can ensure that the appropriate personnel are assigned to appropriate tasks and raise the efficiency of follow up dispatch controls.	September 2017 As of the date of publication of this report, 15% has been completed
Construction of a New Cabin Mobile Service System (iCabin 2.0)	To improve integration of shared system resources, CAL set up a new cabin mobile service system that includes an iPad electronic document management system, cabin announcement system, and preflight, inflight, and post-flight information integration. The system also includes a newly added preflight (permit validity evaluation, individual work hours/rest evaluation, pick-up time confirmation) and inflight (transfer flight information, passenger upgrade services, communication language change, holiday and rest period control, training signup sheet) features.	December 2017 As of the date of publication of this report, 6% has been completed
Mobile Apron Work Order System	A mobile PreFlight (PF) and TranSit (TS) apron work order system to provide maintenance staff with correct, real-time work order information and improve the overall quality of maintenance operations.	September 2017 As of the date of publication of this report, 12% has been completed
Next Generation China Airlines Enterprise Information Portal	In order to enhance enterprise collaboration, CAL is utilizing search integration to construct the next generation China Airlines Enterprise Information Portal (EIP) that serves as an information and communication platform for all CAL employees. The platform will hasten the Company's uptake of mobile technologies and strengthen links between units to improve overall work efficiency.	February 2018 As of the date of publication of this report, 20% has been completed
Construction of Phase 2 of the Next Generation Mobile Platform (Mobile 3.0)	In addition to optimizations to Phase 1 as suggested by travelers, new features and interactive content will improve service quality and provide new experiences to our customers. Phase 2 will increase app stickiness and usage rate.	December 2017 As of the date of publication of this report, 10% has been completed
Dynasty Flyer Courtesy Promotion Recommendation Application System	The Company is constructing a Dynasty Flyer Courtesy Promotion Recommendation Application System to create a systematic procedure for courtesy promotion application, confirmation, and execution to replace the current manual process that requires email communication between different units within the Company. Not only will the system simplify procedures and improve courtesy record checks, the information will be included in member contribution information to be used as reference for promotion approvals thereby strengthening the member courtesy promotion mechanism.	October 2017 As of the date of publication of this report, 16% has been completed
Travel Industry B2B Information Exchange Service Collaboration	To maintain real-time understanding of travel agency tour group sign ups, properly adjust seat sales, and reduce manual communication between the Company and travel agency staff, CAL will enter into an information exchange service collaboration with major domestic travel agencies. Travel agency operators can quickly receive booking record change information for their tour groups and directly update group participant numbers to enable CAL to adjust seat reservations, thereby increasing the efficiency of information exchange and employee productivity. The collaboration is estimated to bring a 2-4% increase in tour group passengers.	December 2017 As of the date of publication of this report, 30% has been completed

Member Package Ticket Cloud Sales System	To make it easier for our frequent flier members to purchase tickets online while also increasing ticket sales, CAL is constructing an online member ticket package sales system. The system will migrate sales channels to the website and provide passengers with quick and convenient booking services. Members can purchase five tickets for the same route at one time and provide follow up flight registration features.	September 2017 As of the date of publication of this report, 35% has been completed
Dynasty Lite Package Travel Sales System Platform Cloud Maintenance	Currently the Dynasty Lite Package Travel Sales System Platform software and hardware is undergoing development and maintenance to establish safer and more flexible services. Taking advantage of the latest technology, we are also planning for the system to be transferred into the cloud where the Company can maintain and operate the system in house to better handle large sales volume and changes to the computer program in the future. Each year CAL will save an estimated NT\$2 million to US\$2.5 million in hosting and maintenance fees.	December 2017 As of the date of publication of this report, 10% has been completed

(2) Major Factors Affecting the Success of Future R&D

- A. Full support of operational managers
- B. Proper grasp of operational needs
- C. Utilization of the latest IT know-how and technology
- D. Information system architecture upgrades
- E. Implementation of project management
- F. Strict budget control

5.1.4 Long-term and Short-term Development

To promote sustainable operations and strengthen international competitiveness, CAL has planned the following short- and long-term passenger and cargo transport developments:

A. Short-term Development

(1) Passenger

- **Increase transport capacity to accommodate flourishing Japanese tourism**
Benefitting from a depreciating Yen, Taiwanese travelers are visiting Japan in droves. CAL has not only expanded capacity, but also offered extra flights / charter flights to meet seasonal demand to increase revenue.
- **Explore the potential of new markets under the “New Southbound Policy”**
CAL has added new flights to high-potential destinations in the region (such as Kuala Lumpur, Yangon, Penang). The Jakarta route is now served by the new 77W aircraft. The government is offering preferential entry visa measures for many Southeast Asian nations, which will spur tourism from the region to Taiwan.

(2) Cargo

- **Strengthen strategic cooperation and adjust capacity to keep on top of cargo demand trends**
Utilizing China Airlines’ capacity advantage in Eastern and Southern China, we will continue to strengthen cooperation with the international couriers UPS, FedEx, and SF Express. Through these strategic partnerships, we will increase cross-border cargo sources in the Asian region. In addition, we flexibly adjust cargo capacity based on the needs of various regions. North American routes are modified and capacity increased to coincide with the seasonal fruit shipping schedule and extra and charter flights are added to meet demand. In addition to our usual cargo flight service to Europe, from August 2016 European cargo flights with a stopover in Delhi were resumed to strengthen expansion in the developing Indian market. For regional routes, we will seek out commonly air freighted Japanese exports such as semiconductor machine equipment and automobile parts and utilize fifth freedom rights to import to and export from Japan on transpacific flights. In Southeast Asia, we will continue to build business in Singapore, Vietnam, Malaysia, Indonesia, the Philippines, and Thailand through flexible intermediary flight segments (such as Singapore – Penang) to reap the benefits of interregional direct flights.

B. Long-term Development

(1) Passenger

- **Optimize Long-Haul Routes, Increase Australia and New Zealand Capacity**

Beginning in December 2016, all European routes are serviced by exclusively non-stop flights aboard our new 359 airliner, one of the most advanced in our fleet. The 359 is known as the “most technologically advanced, most energy efficient, most environmentally friendly, most spacious, and quietest” aircraft and will give CAL a great advantage in future operations. These enhancements to our European offerings will attract business travelers and upgrade our overall corporate image. In May 2016, New York flights were increased from three to five per week to provide Taiwanese travelers with more options to reach the Eastern US. In the future, mainland Chinese travelers can also take advantage of added flights making travel to and from Southeast Asia via Taiwan more convenient.

- **Launch of “Let’s Go” in response to low cost competition**

According to the Centre for Asia Pacific Aviation (CAPA) statistics, Low Cost Carriers (LCC) had a 13.4% share of the Taiwan market in 2016 compared to only 3.6% in 2012. In view of this fierce competition, CAL launched the new fare product “Let’s Go” for short-haul flights on May 25, 2016. Tickets are sold exclusively on the China Airlines website and exclude a free baggage allowance. “Let’s Go” not only provides passengers with another option when purchasing tickets, it can expand market share by attracting customers with different needs who may not otherwise consider China Airlines.

- **Optimized Services, Warming Passengers’ Hearts**

Originally, only the few Hong Kong flights scheduled around dinnertime featured hot meal service. Most flights only offered HOT PACK snack service. To strengthen the quality of cabin service and raise our competitive advantage, beginning in August 2016, all Hong Kong flights resumed hot meal service. We continually work to enhance our offerings to keep up with international trends and attract more travelers to fly China Airlines. From July 2016, baggage allowances were increased for zones on the weight system, which include Asia (Southeast Asia, Northeast Asia, and Mainland China), Australia and New Zealand, and Europe. Economy passenger allowances were increased from 20 to 30 kilograms, premium economy increased from 25 to 35 kilograms, and business class increased from 30 to 40 kilograms.

(2) Cargo

- **Optimize Global Channels, Develop High Yield / High Growth Cargo Sources**

Through strategic cooperation and customer relationship and performance management, we can strengthen cooperation with major global freight forwarders and achieve stable cargo volumes. CAL will increase revenue by expanding high yield services (such as courier cargo, special cargo, cold chain products, and charter flight services) and increase cross-strait and global e-commerce and mail cargo volumes.

- **Increase Code Share / Alliance Cooperation, Expand Cargo Route Network and Strengthen Cargo Information Development**

To build our business in emerging cargo markets such as ASEAN nations, India, Mexico, and Brazil, China Airlines will strengthen code-share cooperation to expand our service network. Working with SkyTeam Cargo, we will jointly develop a courier cargo transport platform to improve transshipment efficiency and expand our flight network. Additionally, through the integrated and real-time information provided by upgraded Cargo Business / Service Information Systems, internal operating efficiency, customer service quality, and customer satisfaction will increase.

5.2 Market and Sales Overview

5.2.1 Market Analysis

A. Main Sales (Service) Region

Overview of Company passengers/cargo (RPK/FRTK, REV) by region and passenger and cargo transport market share over the past two years:

(1) Passenger routes:

Area \ Item	2015			2016		
	No. of Passengers	RPK (Million)	Revenue (NT\$ Million)	No. of Passengers	RPK (Million)	Revenue (NT\$ Million)
Trans-Pacific	1,285,491	11,137	17,720	1,386,818	12,280	18,571
Europe	635,100	4,492	7,758	601,381	4,328	7,063
South-East Asia	3,340,271	8,240	16,529	3,450,709	8,457	16,385
Domestic	901,340	312	1,529	1,000,915	254	1,574
Hong Kong	2,707,661	2,074	7,459	2,738,184	2,096	7,594
North-East Asia	4,477,364	8,021	24,287	5,142,683	9,275	25,042
Oceania	466,570	2,204	3,812	558,714	2,795	4,542
Mainland China	2,841,285	2,900	15,868	2,702,393	2,698	14,511
Total	16,655,082	39,380	94,962	17,581,797	42,183	95,282

Note 1: Revenue passenger kilometers (RPK) equal the total number of revenue passengers multiplied by the flight distance travelled (kilometers).

Note 2: The above data includes scheduled flights, charter flights, and extra flights.

Note 3: The above data includes Mandarin Airlines and Tigerair Taiwan.

(2) Cargo routes:

Area \ Item	2015		2016	
	FRTK (Million)	Revenue (NT\$ Million)	FRTK (Million)	Revenue (NT\$ Million)
Trans-Pacific	3,624	24,644	3,500	20,547
Europe	708	4,698	716	4,625
South-East Asia	697	6,435	718	6,034
North-East Asia	167	1,911	185	1,842
Oceania	70	484	72	481
Mainland China	123	2,121	135	2,192
Total	5,389	40,293	5,326	35,721

Note 1: Freight revenue ton-kilometer (FRTK) equals the revenue cargo load (tons) multiplied by the flight distance travelled (kilometers).

Note 2: The above data includes scheduled flights, charter flights, and extra flights.

Note 3: The above data includes Mandarin Airlines and Tigerair Taiwan.

B. Market Share (%) of Major Product Categories in the Last Two Years

Airline	Year	Passengers		Cargo	
		2015	2016	2015	2016
China Airlines		26.74%	25.04%	37.89%	38.12%
EVA Air		20.90%	21.48%	26.24%	24.84%
TransAsia Airways		3.45%	3.18%	0.51%	0.56%
Mandarin Airlines		3.02%	2.61%	0.81%	0.86%
UNI Air		1.57%	1.50%	0.41%	0.50%
Far Eastern Air Transport		0.66%	0.45%	-	-
Tigerair Taiwan		1.37%	2.72%	0.04%	0.04%
V Air		0.46%	0.83%	-	-
Other – Foreign Carriers		41.83%	42.19%	34.10%	35.08%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2015 and 2016 - Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

C. Market Analysis of Major Product Categories

(1) Passenger

The overall demand for air travel to and from Taiwan is expected to grow by 3.8% in 2017 compared to 2016. Supply is expected to rise 2.1% over that period. Regional routes, impacted by government and economic factors, are expected to grow by 3.3%, while overall capacity will remain relatively flat with just 0.6% growth, which is expected to push the overall load factor to 81%, an increase of three percentage points over last year. With both national and Middle Eastern carriers increasing capacity, long-haul route supplies are expected to increase by 16.3% which will also help push demand growth to 10.5%. However, supply growth is still rising faster than demand, so the overall passenger load factor is expected to fall.

(2) Cargo

In 2017, the Asian export market is expected to rise by just 1.7% and several political and economic factors (Brexit, European refugee crisis, slower than expected US economic recovery) threaten economic growth, so concerns remain about overall cargo demand growth. With downbeat forecasts for the Asian market in 2017, dedicated cargo plane capacity will remain flat. However, with the increase in passenger capacity, the added cargo capacity in passenger airplanes will result in an overall cargo market supply increase of 2.7%, with a 7.8% capacity increase coming from passenger plane cargo holds and only a 0.1% increase in cargo plane capacity. Looking to the overall cargo market in 2017, supply will continue to outstrip demand and the average cargo load factor is expected to decrease by 0.7 percentage points while earnings for the unit are also predicted to continue to fall.

D. Competitive Niche

(1) Next Generation Long-Haul Fleet Taking Shape

China Airlines' 10 Boeing 777-300ER next generation design airliners all entered service in the first half of 2016. Additionally, in the second half of the year, deliveries began on the Company's 14 new Airbus A350-900. With these new introductions, the fleet lineup is younger and the next generation design concepts help promote Taiwanese culture on the world stage. This transformation retains the soul of China Airlines while bringing the airline into a new era and provides long-haul route passengers with an entirely new experience.

(2) Extensive Route Network, Leader in the Region and Australia/New Zealand Markets

China Airlines has operated in the airline industry for 57 years. Our passenger transport routes span 81 destinations in 22 countries across Europe, the Americas, Asia, and Australia, while our cargo transport serves 96 destinations in 29 countries (as of December 31, 2016). Together these routes form a dense passenger and cargo transportation network. The Company is also actively expanding Australia/New Zealand and regional routes, which include cross-strait and Northeast and Southeast Asia flights. China Airlines enjoys the highest market share for regional flights of any airline.

(3) A Leader in Collaboration

In addition to our own routes, China Airlines was the first Taiwanese airline to join a global airline alliance and develop code-share flights with other carriers. Currently the Company already operates code-share flights with 19 airlines, the highest of any Taiwanese carrier. China Airlines is actively growing our global footprint to enable passengers to utilize our extensive route network to easily travel between Taiwan and cities around the world.

(4) Variety of Innovative Marketing Strategies

Mobile technologies have changed both the way passengers purchase tickets and the overall travel experience. China Airlines is actively developing a variety of new marketing and sales strategies: new Dynasty Package travel products, optimized production and marketing channels, and innovative promotions. Using a variety of resources, the Company is improving product competitiveness and increasing added value. Themed charter flights, new backpacking holidays, CI Mobile App, and online customer service through the China Airlines WeChat and Facebook accounts will attract more young customers and build buzz for the airline.

E. Corporate Governance and Policies

(1) Corporate Human Rights Policy

China Airlines respects and abides by internationally-recognized human rights norms and principles. The Company firmly believes that respect for and protections of human rights are the foundation upon which to build sustainable operations. Therefore, China Airlines' human rights policy, implemented at the Company and its subsidiaries, focuses on respect, protection, assessment, and compensation for any employee or customer who may experience a human rights violation. In addition, we expect and require that China Airline's suppliers and contractors follow the spirit and basic principles outlined in our policy.

(2) Sustainable Supply Chain Management

In order to achieve sustainable supply chain management goals, in 2015 China Airlines established a supplier code of conduct covering legal compliance, human rights and labor conditions, occupational health and safety, environmental protection, fair trade and ethics, quality and safety, and cyber security. To enhance the sustainability of a large number of CAL suppliers, in 2016 we further required suppliers to sign the code of conduct and together commit to developing a sustainable industry environment and working towards common prosperity. In 2016, China Airlines was also included as a constituent stock in the DJSI Emerging Markets Index, achieving the highest score in the industry for supply chain management.

(3) Environmental Sustainability Management

China Airlines is committed to environmental sustainability management, as the environment is a key factor in achieving sustainable operations. In 2007, we drafted environmental and energy management principles. In 2011 the dedicated Environmental Department and Environmental Committee were established. Each quarter, our President reviews environmental and energy management performance and sets up incentives. In 2013, China Airlines released an environmental and energy policy statement and was the first airline in Taiwan to establish a dedicated environmental organization and establish related policies.

(4) Corporate Social Responsibility

China Airlines is deeply aware that our success is solely thanks to public support and we have long been committed to giving back to our community. Bringing value to the community we serve is an important part of our strategy to achieve sustainable development. Through a variety of public welfare programs, China Airlines supports disadvantaged groups, nurtures new sporting talent, and helps cultivate the next generation of young people, thereby also creating the greatest value for our customers, shareholders, and employees.

(5) Enterprise Risk Management Architecture and Process

China Airlines understands the importance of proper risk management and pays special attention to the potential interaction between risks. Referencing Enterprise Risk Management (ERM) related literature and practices, while also considering the specific environmental and operational characteristics of the airline industry, we found that the three main sources of risk for the industry are: safety, operational, and financial risk. Using the four ERM steps of risk identification, risk analysis, risk assessment, and risk control, the Company identified the potential risk events in these three risk sources. These are then analyzed and evaluated according to the probability of occurrence and severity to distinguish the degree of risk for each event. Finally, for high risk events, the Company developed a response program to mitigate operational impact.

F. Favorable and Unfavorable Factors in the Long Term

(1) Favorable Factors

- Although at the end of 2016 OPEC and non-OPEC oil producing nations agreed for the first time to a global pact to limit supply and in the long term oil prices are expected to rise, over the short term oil prices should remain low to the benefit of the global aviation industry.

- The Asia-Pacific Region has recently benefitted from the growth of emerging economies and demand for air travel in the region has surged. IATA estimates that Asia-Pacific air travel volume growth will outpace the global average. Passenger volume is expected to rise. For cargo, the above positives could bring demand growth, but supply is still higher than demand in the overall market, so business could simply remain stable.
- Air cargo market growth is impacted not only by the economy, but geographic location is also an important factor. Taiwan is located at the center of the Asia-Pacific region and the air cargo market potential is nearly unlimited. This business opportunity can be tapped by developing an air cargo center. Therefore, in recent years the government has launched the expansion of Taiwan Taoyuan Airport to build an East Asian transport hub.

(2) Unfavorable Factors

- The fate of the airline industry is inextricably linked with the health of the global economy. The operating environment is therefore easily affected by natural disasters and the global political situation, which includes cross-strait relations, terrorist threats in Europe, and elections in the US and Europe.
- Changes in population and structure in nations around the world will affect the number and types of foreign travelers visiting Taiwan and Taiwanese travelling overseas. Therefore, airlines must adjust capacity, products, and marketing in response to the changing market.
- As air transportation has been gradually liberalized in recent years, Taiwanese, foreign, and low cost carriers have entered the market and the added capacity has put downward pressure on ticket prices and impacted the bottom line. In addition, liberalization has also caused increased congestion at large airports around the world. According to IATA statistics, over 170 airports worldwide have been classified as Level 3, the most congested. The problem is difficult to alleviate in the short term and the air transport market is facing extreme challenges.

(3) Response Measures

- Through information gathering and management, we will keep a tight grasp on global political and economic developments. To respond to unpredictable events in the operating environment, we will adapt flight schedules, aircraft deployment, and capacity to increase the passenger load factor and profitability of those routes.
- To respond to changes in passenger behavior and the popularity of mobile devices, the Company will adapt to changing passenger needs. Launching a variety of promotional activities, providing mobile, electronic information features and marketing directed at target customer groups will strengthen the Company's competitiveness.
- In coordination with the arrival of the new long-haul fleet and new opportunities afforded by Open Skies, the Company is actively adding new routes and destinations to maintain our regional advantage and optimize our long-haul network. With Taiwan's geographical advantage, we will build an East Asian transfer hub while expanding cooperation with our airline partners to build a global flight network and generate more revenue.

5.2.2 Production Procedures of Main Products

A. Major Products and Their Main Uses

Major Products	Main Uses
Passenger services	International passenger air transport and scheduled, non-scheduled, and charter flights.
Cargo services	International cargo, courier, mail, and package transport.
In-flight sales	Providing passengers with in-flight duty free sales services.

B. Major Products and Their Production Processes

The Company is a member of the airline industry and not a manufacturer, so there is no production process.

5.2.3 Supply Status of Main Materials

CAL is a member of the airline industry, not a manufacturer. Therefore, there is no need for production raw materials. Aviation fuel makes up the largest proportion of operating costs. In addition to aviation fuel supplied at Taiwan Taoyuan Airport by CPC Corporation and Formosa Petrochemical Corporation, the Company also purchases fuel from large oil companies around the world at the various destinations served, so fuel supplies are very fragmented.

5.2.4 Major Suppliers and Clients

A. Major Clients in the Last Two Calendar Years:

CAL is a member of the airline industry and clients are members of the general public.

B. Major Suppliers in the Last Two Calendar Years:

CPC Corporation, Formosa Petrochemical Corporation etc.

Unit: NT\$ thousands

Item	2015				2016				2017 (As of March 31)			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	CPC Corporation	13,630,688	10.90	None	CPC Corporation	11,593,459	9.42	None	CPC Corporation	3,366,269	10.20	None
2	Formosa Petrochemical Corporation	3,801,458	3.04	None	Formosa Petrochemical Corporation	3,193,911	2.60	None	Formosa Petrochemical Corporation	1,035,938	3.14	None
	Other	107,610,673	86.06		Other	108,285,831	87.98		Other	28,594,878	86.66	
	Net Total	125,042,819	100.00		Net Total	123,073,201	100.00		Net Total	32,997,085	100.00	

Reasons for changes:

Fuel is the Company's primary operating expense. Overall, purchases have remained stable.

5.2.5 Production in the Last Two Years

Unit: thousand kilometers

Capacity and Traffic	Year	2015	2016	Rate of Increase (Decrease)
Available Seat Kilometers (ASK)		50,125,745	54,192,310	8.11%
Revenue Passenger Kilometers (RPK)		39,379,835	42,183,064	7.12%
(%)		78.56%	77.84%	-0.72 ppt
Freight Available Ton Kilometers (FATK)		7,608,117	7,669,755	0.81%
Freight Revenue Ton Kilometers (FRTK)		5,388,800	5,325,986	-1.17%
(%)		70.83%	69.44%	-1.39 ppt
Available Ton Kilometers (ATK)		12,113,673	12,535,724	3.48%
Revenue Ton Kilometers (RTK)		8,928,878	9,114,419	2.08%
(%)		73.71%	72.71%	-1.00 ppt

Note 1: The above data includes scheduled flights, charter flights, and extra flights.

Note 2: The above data includes Mandarin Airlines and Tigerair Taiwan.

Reasons for Changes:

CAL is a member of the airline industry. In 2016, the Company increased passenger capacity resulting in ASK and RPK increases compared to 2015. In addition, RPK and FRTK increased less than ASK and FATK, so the passenger and cargo load factors decreased slightly.

5.2.6 Shipments and Sales in the Last Two Years

Unit: thousand kilometers; NT\$ thousands

Item	2015		2016	
	RPK/FRTK	Amount	RPK/FRTK	Amount
Passenger Revenue	39,379,835	94,962,055	42,183,064	95,282,373
Cargo Revenue	5,388,800	40,292,840	5,325,986	35,721,425
Other Operating Revenue	-	9,801,322	-	10,075,309
Total	-	145,056,217	-	141,079,107

Note 1: The above data includes scheduled flights, charter flights, and extra flights.

Note 2: The above data includes Mandarin Airlines and Tigerair Taiwan.

Reasons for Changes:

Sales for passenger operations rose in 2016 over 2015. In 2016, increased passenger capacity resulted in increased volume and revenues. In the first quarter of 2015, the US West Coast port closure pushed up cargo demand and raised rates. Also, due to lower oil prices, 2016 fuel surcharges were lower than in 2015. These factors resulted in lower net cargo revenue than the previous year.

5.3 Human Resources

Year		2015	2016	APR 24, 2017
Number of Employees	Male	6,419	6,554	6,562
	Female	6,008	6,094	6,121
	Total	12,437	12,648	12,683
Average Age		40.00	40.20	40.11
Average Years of Service		12.70	12.90	12.98
Education	PhDs	0.11%	0.11%	0.11%
	Master's Degrees	9.73%	10.34%	10.35%
	Bachelor's Degrees	82.94%	82.74%	82.75%
	Senior High School	6.69%	6.25%	6.30%
	Below Senior High School	0.53%	0.56%	0.49%

5.4 Environmental Protection Expenditure

5.4.1 Total Losses and Penalties: None.

5.4.2 Company Countermeasures to Future Environmental Protection Issues

A. ISO 14001 Environmental Management System and ISO 50001 Energy Management System

The Company's corporate environmental management mechanism has introduced the internationally accepted ISO 14001 Environmental Management System (EMS) and ISO 50001 Energy Management System (EnMS) standards and their PDCA management cycle to comprehensively identify and manage environmental and energy issues arising from business activities. The systems cover flight operations, maintenance, logistics, and administrative support.

With the rise of corporate benchmarking, China Airlines has not only implemented an internal self-auditing mechanism, each year we also commission an international auditing team to certify the Company under ISO 14001 and ISO 50001 standards. The scope of ISO 14001 certification covers our maintenance facility, CAL Park Headquarters, and the Taipei and Kaohsiung Branches. ISO 50001 energy management system certification covers CAL Park and our maintenance facility. The 2016 third-party audit was completed on December 15, 2016.

China Airlines is the second airline globally and the first in Taiwan to receive both ISO 14001 and ISO 50001 certification and the scope of certification is the broadest of any airline in the country.

B. Environmental KPI Controls

The Company's five major Environmental Management Committees and the Carbon Management Taskforce have adopted and implemented environmental KPI (key performance indicators). The annual review by the Environmental Committee, convened and chaired by China Airline's President, encourages all divisions to implement environmental protections.

In 2016, a total of 64 KPI were completed and carbon emissions were reduced by 9,133 tons of CO₂e through conservation of aviation fuel, energy, and vehicle fuel. In 2017, we set up a further 59 KPI and expect to reduce emissions by 105,582 tons of CO₂e over the year.

C. Environmental Management Inspection Mechanism

As part of the Company's environmental management inspection mechanism, each unit performs a stage one environmental management self-audit then Company headquarters performs a stage two audit. Through this double audit system, we can ensure that environmental management is implemented from the ground up within each unit.

Stage two audits (including corrective/preventive measures and inspection) were completed in the second and fourth quarters of 2016. In addition to carrying out audits according to the inspection checklist, auditors also review areas of concern from previous audits, environmental and energy KPI implementation, and any corrective or preventive measures listed on the Taoyuan Department of Environmental Protection audit result.

D. Employee Environmental Education and Training

In order to comprehensively implement Company environmental policies, environmental management procedures, and increase employee environmental awareness, China Airlines offers employee environmental education and training. CAL headquarters holds training regarding environmental policies and systems, while each individual unit holds environmental training as it pertains to its own operations. Such training can promote a higher level of ecological awareness and concern for our Earth among employees and build a culture of environmental sustainability at the Company. Between 2013 and 2015, all employees in the Taiwan region received training and in 2016 trainings were held at Company out-stations around the world and for foreign employees.

E. Carbon Inventory and Reduction Project

(1) Annual GHG (greenhouse gas) Inventory

In accordance with ISO/CNS 14064-1 standards, the Company began performing an annual GHG inventory in 2009 covering flight, ground service, and administrative operations, which is verified by a third party.

In April 2017, third-party verification on our 2016 inventory was completed and we received Reasonable Assurance certification. In 2016, verified GHG emissions totaled 7,067,935 tons of CO₂e.

(2) EU ETS (European Emission Trading Scheme)

In accordance with new EU regulations in effect April 2014, in March 2017 the Company completed carbon dioxide emissions inventory and verification for 2016 intra-EU flights. The verified results are as follows: 102 flights, carbon dioxide emissions equaled 3,260 tons. The annual carbon rights allocated to the Company by the EU for the period 2013 – 2016 equaled 7,157 tons per year, so 3,897 tons of the allowance remained unused in 2016.

F. Participation in an International Environmental Research Project

The Company took part in the Pacific Greenhouse Gases Measurement Project (PGGM) in collaboration with the Environmental Protection Administration, National Central University, and the EU's IAGOS-ERI program. In June 2012 and July 2016, IAGOS equipment was installed on our B-18806 and B-18317 aircraft to automatically collect atmospheric gas data during flight, which is provided to important research groups in Taiwan and overseas to detect and understand high-altitude gas changes and perform other environmental research. From July 1, 2012 through December 31, 2016, atmospheric data was collected during 3,559 flights. With the help of China Airlines, this project will contribute to global ecological protection efforts and raise Taiwan's environmental profile.

In accordance with the needs of the Environmental Protection Administration Project Team, the Company expanded the scope of cooperation with PGGM. In July 2017 we will install IAGOS equipment on B-18316, then B-18316 and B-18317 are expected to continue collecting data until 2027.

G. Building and Energy-Efficient, Environmental Fleet

In planning our new fleet, the primary concern was to select planes that met international flight noise and emissions standards while also prioritizing fuel efficient models.

Since the first delivery in September 2014 of our new fuel-saving Boeing 777-300ER models, we received a total of eight such planes through the end of 2015. In 2016, we took delivery of an additional two planes bringing the total to 10.

In 2016, we received four Airbus A350-900 and will receive a further ten planes between 2017 and 2018 for a total of 14.

H. Promote Continuous Improvement in Maintenance Operations

(1) Maintenance Facility Environmental Management Team

The maintenance facility established an Environmental Management Committee, in which an assistant vice president-level manager serves as Environmental Management representative. The Committee is made up of members employed in the maintenance facility and environmental-related units. Through the committee platform, the effectiveness of maintenance facility environmental management is regularly monitored and reviewed to meet legal requirements, international trends, company policies, and our corporate social responsibilities.

(2) Establishing Maintenance Facility Environmental KPI

Each year, the maintenance facility sets environmental KPI in accordance with Company goals and in consideration of potential maintenance facility environmental impacts. The KPI include fuel,

energy, and water conservation, green procurement, waste recycling, and environmental education and training. Each goal is regularly monitored and reviewed by the Environmental Management Committee to continuously improve environmental management and keep up with domestic and international environmental protection trends.

(3) Continue to Implement Maintenance Facility ISO 14001 Environmental Management System/ISO 50001 Energy Management System

In accordance with ISO14001 and ISO 50001 provisions, the maintenance facility completed the management systems' PDCA model in the areas of environmental policy establishment, environmental management document formulation, environmental assessment, environmental objective setting, education and training, environmental performance assessment, internal auditing, and environmental management review. Each year these efforts are certified by a third-party auditor.

(4) Air Pollution Control

Each year air pollution emissions testing is performed on the heating boilers in our maintenance facility's engine plant and plating factory based on related standards and regulations and a quarterly air pollution control fee declaration is made (because the facility uses super diesel, no inspection is required, but a declaration must be made).

(5) Wastewater Treatment

Our maintenance facility wastewater treatment plant treats wastewater produced by airplane cleaning, paint stripping, and plating. The plant has obtained a wastewater discharge permit and our water pollution prevention measures program has been updated to meet legal regulations. Improvements are implemented and equipment added as necessary to ensure compliance with new environmental regulations.

(6) Waste Disposal

Waste produced by the maintenance facility is sorted and stored as required by law into recycling, reusable waste, and industrial waste then collected by EPA-approved recyclers and waste disposal companies. Maintenance facility units perform scheduled reviews to ensure the legality of the final disposal. The waste disposal program is updated regularly as required by law and each year's actual waste amount is updated and declared. Soil and groundwater remediation fees are paid based on the latest laws and the declared amount of waste produced.

(7) Procurement

The maintenance facility has received all necessary authorizations for the toxic chemicals purchased and in use, which are properly stored, labelled, managed, and declared. In order to maintain compliance, improvements to these processes are implemented, new equipment added, and applications for revisions are made based on the latest environmental laws and regulations.

(8) Airport Noise Control

In order to control employee noise exposure while working on the apron, the Company regularly commissions professional testing organizations to perform operating environment noise inspections at the Taipei Taoyuan and Kaohsiung Airports. The Company purchases and distributes hearing protection equipment to protect employees working on the apron from hearing loss. As required in the Civil Aviation Law of The Republic of China, CAL pays aviation noise control fees (see below table) and supports related education campaigns implemented by the authorities.

5.4.3 Countermeasures

Unit: NT\$ thousands

Year \ Item	2016	2017	2018	2019
Environmental protection equipment and maintenance costs (does not include depreciation)	13,993	13,000	13,000	13,000
Fees for wastewater equipment regular sampling inspections by inspection agencies and permitting	262	260	260	260
Waste disposal costs	4,164	4,100	4,100	4,100
Aviation noise control fees (paid to the terminal based on airplane model and number of flights)	185,864	185,000	185,000	185,000
Fees for establishment of an environmental control system and strategic research project	5,881	5,500	5,500	5,500
Green procurement	13,385	13,000	13,000	13,000

5.4.4 Effect of Environmental Expenditures on Earnings

Energy-saving equipment and improved management expenditures reduce both Company energy use and operating costs.

5.4.5 Effect of Environmental Expenditures on Competitiveness

Environmental performance has already become an important benchmark in achieving corporate social responsibility. With the rise of green consumers, actively investing in environmental improvements can positively affect our competitive position and improve brand image.

5.5 Labor Relations

5.5.1 List of employee benefits, training, retirement program, and status of their implementation, and labor-management agreements and protections of employee rights and interests

A. Good Labor-Management Relations

On May 4, 1988, the China Airlines Union was established. On July 29, 2011, in accordance with revisions to the Labor Union Act, it was renamed the China Airlines Employee Union. In 2002, a collective agreement was signed between labor and management, which is regularly negotiated and renewed. Since its inception, the agreement has played a role in promoting harmonious relations between labor and management.

B. Retirement Program and Pension Preparations

(1) Labor Standards Act Old Pension System: The Company's Labor Retirement Reserve Oversight Committee was established in June 1987. All allocations and payments under the old pension system are made in accordance with the Labor Standards Act.

(2) Labor Pension Act New Pension System: As stipulated in the Labor Pension Act, since July 2005 the Company has made monthly deposits for each employee on the new system to the Bureau of Labor Insurance.

C. Labor-Management Communications

(1) Units within the Company with a relatively large number of employees, such as the maintenance facility, Ground Services Division, Cabin Crew Division, Flight Operations Division, and Taipei and Kaohsiung Branches hold regular communication meetings. In addition, elected employee and

union representatives attend monthly company-wide labor-management conferences to improve understanding and communication.

(2) From March 2015 through the end of May 2016, each unit held regular Town Hall Meetings during which division senior vice presidents or vice presidents met with employees to exchange opinions. The more than 1,000 issues mentioned by employees regarding their work environment, rights and interests, salary, and benefits received timely responses.

(3) Establish an employee complaint mechanism and channels to ensure proper response:

When employee rights have been violated or a situation is improperly handled, as stipulated in the Regulations Governing Employee Complaints, employees can lodge a complaint with the responsible operating unit or the Human Resources Division. If the employee objects to the response, he or she can file an appeal with the Human Resources Division. Use of employee complaint channels: From April 2016 through the end of March 2017, a total of 17 complaint cases were handled.

D. Benefits

(1) Employee care

Pension appropriation, labor and health insurance, employer liability insurance, group insurance, employee physical examination, and providing a nursing room.

(2) Profit sharing

In August 1998, the Company set up an employee stock ownership trust. Employees are free to participate and the amount, depending on employee position, is deducted directly from their monthly salary. Through the end of March 2017, a total of 1,917 employees have participated.

(3) Welfare system

The Company's Employee Welfare Committee was set up in December 1967. As stipulated by law, the Committee distributes benefits, handles the disbursement of wedding allowances, funeral allowances, disaster allowances, employee children excellence scholarships, birthday bonuses, and birth allowances, arranges visits to nursing homes, holds recreational sports activities, distributes meals and holiday gift certificates, and offers distress or purchase loans.

(4) Employee leisure

Employee group activity subsidies, employee group travel subsidies, discounted tickets for current and former employees.

(5) Working environment

Workplace compliant with occupational safety standards, gender equality.

(6) Employee training

In order to encourage participation in independent study as promoted by the Workforce Development Agency, the Company will provide subsidies of up to NT\$ 5,000 per person per year to any employee who takes part in courses related to their job (those eligible for full government subsidy will not receive further assistance).

E. Collective Agreement

The CAL Collective Agreement was renewed on January 5, 2015 and went into effect on the following day. On January 19 of the same year, the Council of Labor Affairs issued a written approval. The full text of the agreement is available through the CAL Enterprise Information Portal.

F. Counseling

To take care of our colleagues needs and participate in employee personal growth, the Company has employed professional counselors and psychiatrists to provide counseling services to employees. From January 2016 through March 31, 2017, 129 people participated in 245.95 hours of individual counseling.

G. In addition to promoting employee education and training to strengthen staff knowledge and skills, we also continue to accumulate knowledge and encourage exchange within the Company to build a learning organization. Through the management personnel training program and the “China Airlines Lecture Hall” training system, the Company holds courses to strengthen employees’ strategic, management, professional, and general workplace skills.

- To encourage employee participation in the Workforce Development Agency’s Industrial Human Resource Investment Plan, all credit and non-credit classes are recorded in the E-Learning system as outside training and out of pocket costs are subsidized.
- Received China Aviation Development Foundation 2016 training grant of NT\$1.2 million and Workforce Development Agency 2016 training grant of NT\$737,557.
- Launched strategic, management, professional, and general workplace skills training courses.
- Marketing Training: included marketing strategy, passenger operations, cargo operations, and relevant OJT training. A total of 7,122 people attended the 247 classes held.
- Professional Technical Training: included corporate safety/inspection operations, flight operations, system operations, and EMO operations. A total of 55,683 people attended the 2,532 classes held.
- Service Training: included service quality assurance, public relations, service operations, ground service and transport operations, and in-flight service operations. A total of 56,194 people attended the 749 classes held.
- Other Training: included investment management unit operations, legal protections, finance, information technology, and human resource management planning. A total of 8,837 people attended the 239 classes held.

8. In the case of legal punishment of the Company, describe any penalties incurred by employees involved: None.

5.5.2 CAL has established an employee behavior or ethical code of conduct and arranges pre-employment Employee Rights and Responsibilities classes for new hires. The Company's Employee Code of Conduct primary content is as follows:

The Company's Employee Code of Conduct was renamed the Employee Workplace Code of Conduct in May 2016. The Code primarily consists of workplace ethics, privacy, occupational safety, discrimination and harassment, moral integrity, media and public image, conflict of interest avoidance, anti-trust and fair competition, exchanging gifts and anti-corruption, CAL asset and intellectual property protections, reporting responsibilities, respect for human rights, and commitment to environmental protection.

5.5.3 Implementation of work environment and employee personal safety protection measures

The Company complies with the requirements outlined in the Occupational Safety and Health Act and other relevant regulations. Therefore, we formulated and follow our Occupational Health and Safety Manual and actively promote the Occupational Health and Safety Management system to implement related operations. To address potential dangers in the work environment, in addition to hazard identification, risk assessment, engineering controls, government management, and providing employees with personal protective equipment, we also arrange employee physicals, health promotion activities, and health education counseling to reduce occupational incidents. The Company has also strictly implemented automatic safety checks, workplace environmental monitoring, and safety inspections. Furthermore, we launched workplace incident education to strengthen employee safety awareness. As part of health and safety education and emergency response training, the Company provides essential health and safety training to both new hires and existing employees. Through the participation of all employees in harm prevention, we are committed to continuous improvement and creating a safe and healthy work environment.

5.5.4 Over the most recent year through the date of publication of this report, the estimated value of any loss or potential future loss due to labor disputes

From the beginning of 2016 through the end of March, 2017, the Company was fined NT\$3.45 million by the government due to labor disputes or issues found in previous labor inspections that were not completely improved. Should labor disputes expand further in the future, there is no way to estimate the damage to the Company's operations and reputation. In view of this, the Company is currently in phased negotiations with the Union in the hopes of maintaining positive interactions between the two sides to achieve the goal of protecting employee welfare and improving the quality of the work environment. By comprehensively improving employee satisfaction, we hope to eliminate any controversy caused by unnecessary labor disputes.

5.6 Important Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	Ragusa, Ltd.	11/2001-01/2017	Aircraft Type: 747-400F/No.: B-18708	-
Lease	International Lease Finance Corporation	02/2006-02/2018	Aircraft Type: A330-300/No.: B-18351	-
Lease	AWA Leasing Co., Ltd.	06/2006-06/2018	Aircraft Type: A330-300/No.: B-18308	-
Lease	Zhong Hang Co., Ltd.	06/2006-06/2018	Aircraft Type: A330-300/No.: B-18309	-
Lease	Zhong Hang Co., Ltd.	12/2006-12/2018	Aircraft Type: 747-400F/No.: B-18723	-
Lease	Whitney Leasing Limited	02/2007-02/2019	Aircraft Type: A330-300/No.: B-18352	-
Lease	Zhong Hang Co., Ltd.	04/2007-04/2019	Aircraft Type: A330-300/No.: B-18315	-
Lease	Whitney Leasing Limited	05/2008-05/2020	Aircraft Type: A330-300/No.: B-18353	-
Lease	IGAF MSN 769 B.V.	12/2008-12/2018	Aircraft Type: A330-300/No.: B-18312;	-
Lease	Bluesky Magical 1001 Leasing Co	11/2010-11/2022	Aircraft Type: A330-300/No.: B-18355	-
Lease	MSN 1272&1278 Aircraft Leasing (Cayman) Limited	12/2011-12/2023	Aircraft Type: A330-300/No.: B-18356	-
Lease	MSN 1272&1278 Aircraft Leasing (Cayman) Limited	01/2012-01/2024	Aircraft Type: A330-300/No.: B-18357	-
Lease	Panamera Aviation Leasing	10/2012-10/2024	Aircraft Type: A330-300/No.: B-18358	-
Lease	Panamera Aviation Leasing V Limited	12/2012-12/2024	Aircraft Type: A330-300/No.: B-18359	-
Lease	Celestial Aviation Trading 21 Limited	12/2013-12/2025	Aircraft Type: A330-300/No.: B-18360	-
Lease	Wilmington Trust SP Services	04/2013-04/2021	Aircraft Type: 737-800/No.: B-18651	-
Lease	Wilmington Trust SP Services	05/2013-05/2021	Aircraft Type: 737-800/No.: B-18652	-
Lease	Wilmington Trust SP Services	06/2013-06/2021	Aircraft Type: 737-800/No.: B-18653	-
Lease	Avolon Aerospace AOE 73 Limited	03/2014-03/2022	Aircraft Type: 737-800/No.: B-18655	-
Lease	Avolon Aerospace AOE 78 Limited	05/2014-05/2022	Aircraft Type: 737-800/No.: B-18656	-
Lease	SMBC Aviation Capital (UK) Limited	06/2014-06/2022	Aircraft Type: 737-800/No.: B-18657	-
Lease	Celestial Aviation Trading 23 Limited	06/2014-06/2026	Aircraft Type: A330-300/No.: B-18361	-
Lease	Oriental Leasing 3 Company Limited	10/2014-09/2026	Aircraft Type: 777-300ER/No.: B-18051	-
Lease	Oriental Leasing 4 Company Limited	10/2014-10/2026	Aircraft Type: 777-300ER/No.: B-18052	-
Lease	AWA Leasing Co., Ltd.	11/2014-11/2017	Aircraft Type: A340-300/No.: B18803	-
Lease	Celestial Aviation Trading 34 Limited	11/2014-11/2026	Aircraft Type: 777-300ER/No.: B-18053	-
Lease	Celestial Aviation Trading 36 Limited	01/2015-01/2027	Aircraft Type: 777-300ER/No.: B-18055	-
Lease	Sky High XXXVII Leasing Company Limited	05/2015-05/2027	Aircraft Type: 777-300ER/No.: B-18001	-
Lease	Sky High XXXVII Leasing Company Limited	06/2015-06/2027	Aircraft Type: 777-300ER/No.: B-18002	-
Lease	Sky High XXXVII Leasing Company Limited	08/2015-08/2027	Aircraft Type: 777-300ER/No.: B-18003	-
Lease	ALC Blarney Aircraft Limited	09/2015-09/2023	Aircraft Type: 737-800/No.: B-18658	-
Lease	ALC Blarney Aircraft Limited	10/2015-10/2023	Aircraft Type: 737-800/No.: B-18659	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	Sky High XXXVII Leasing Company Limited	10/2015-10/2027	Aircraft Type: 777-300ER/No.: B-18005	-
Lease	Sky High XXXVIII Leasing Company Limited	01/2016-01/2028	Aircraft Type: 777-300ER/No.: B-18006	-
Lease	ALC Blarney Aircraft Limited	03/2016-03/2024	Aircraft Type: 737-800/No.: B-18660	-
Lease	Sky High XXXIX Leasing Company Limited	05/2016-05/2028	Aircraft Type: 777-300ER/No.: B-18007	-
Lease	Chilli Leasing LLC	09/2016-09/2024	Aircraft Type: 737-800/ No.: B-18661	-
Lease	Pacific Triangle Leasing Limited	09/2016-09/2024	Aircraft Type: 737-800/ No.: B-18662	-
Lease	BOC Aviation Limited	10/2016-10/2024	Aircraft Type: 737-800/ No.: B-18663	-
Lease	BOC Aviation Limited	11/2016-11/2024	Aircraft Type: 737-800/ No.: B-18665	-
Loan	CIB (ECA Guarantee)	06/2004-06/2016	Aircraft Type: A330-300/No.: B-18301	-
Loan	CIB (ECA Guarantee)	07/2004-07/2016	Aircraft Type: A330-300/No.: B-18302	-
Loan	Citi Bank (EXIM Guarantee)	08/2004-05/2016	Aircraft Type: 747-400F/No.: B-18717	-
Loan	Citi Bank (EXIM Guarantee)	08/2004-05/2016	Aircraft Type: 747-400F/No.: B-18718	-
Loan	CIB (ECA Guarantee)	12/2004-12/2016	Aircraft Type: A330-300/No.: B-18303	-
Loan	Bank of Taiwan	12/2004-12/2016	Aircraft Type: 747-400/No.: B-18210	-
Loan	BNP Paribas(EXIM Guarantee)	01/2005-01/2017	Aircraft Type: 747-400F/No.: B-18719	-
Loan	Chang Hwa Commercial Bank	03/2005-01/2017	Aircraft Type: 747-400/No.: B-18211	-
Loan	Mega International Commercial Bank	04/2005-04/2017	Aircraft Type: 747-400/No.: B-18212	-
Loan	Bank of Taiwan	05/2005-05/2017	Aircraft Type: 747-400/No.: B-18215	-
Loan	BNP Paribas(EXIM Guarantee)	05/2005-05/2017	Aircraft Type: 747-400F/No.: B-18720	-
Loan	CIB (ECA Guarantee)	06/2005-06/2017	Aircraft Type: A330-300/No.: B-18305	-
Loan	CIB (ECA Guarantee)	07/2005-07/2017	Aircraft Type: A330-300/No.: B-18306	-
Loan	BNP Paribas (EXIM Guarantee)	08/2005-08/2017	Aircraft Type: 747-400F/No.: B-18721	-
Loan	CIB (ECA Guarantee)	09/2005-09/2017	Aircraft Type: A330-300/No.: B-18307	-
Loan	Mega International Commercial Bank	02/2006-02/2016	Aircraft Type: A330-300/No.: B-18310	-
Loan	Hua Nan Commercial Bank	06/2006-06/2016	Aircraft Type: A330-300/No.: B-18311	-
Loan	Mega International Commercial Bank	07/2006-07/2018	Aircraft Type: 747-400F/No.: B-18722	-
Loan	First Commercial Bank	05/2007-05/2019	Aircraft Type: A330-300/No.: B-18316	-
Loan	Cathay United Bank	08/2007-08/2019	Aircraft Type: 747-400F/No.: B-18725	-
Loan	Taiwan Cooperative Bank	02/2008-02/2020	Aircraft Type: A330-300/No.: B-18317	-
Loan	ICBC (Macau)	01/2010-01/2017	Aircraft Type: 747-400/No.: B-18208	-
Loan	Taiwan Business Bank	10/2010-10/2017	Test Cell	-
Loan	Taiwan Business Bank	04/2011-04/2018	Test Cell	-
Loan	Hua Nan Commercial Bank	05/2011-05/2016	Unsecured Loan	-
Loan	KGI Bank	06/2011-06/2016	Hangar	-
Loan	Industrial Bank of Taiwan	07/2014-07/2017	Unsecured Loan	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Loan	KGI Bank	09/2011-06/2016	Hangar	-
Loan	Hua Nan Commercial Bank	05/2012-05/2017	Unsecured Loan	-
Loan	Cathay United Bank	06/2012-05/2016	Aircraft Type: 747-400F/No.: B-18203 & B18206	-
Loan	Taipei Fubon Commercial Bank	10/2012-10/2019	Aircraft Type: 737-800/No.: B-18610&B18617	-
Loan	First Commercial Bank	06/2013-09/2016	Aircraft Type: 737-800/No.: B18605&B18606	-
Loan	Mega International Commercial Bank	09/2013-09/2016	Unsecured Loan	-
Loan	First Commercial Bank	09/2013-09/2018	Unsecured Loan	-
Loan	First Commercial Bank	10/2013-10/2018	Unsecured Loan	-
Loan	Taiwan Cooperative Bank	12/2013-12/2018	Unsecured Loan	-
Loan	Ta Chong Commercial Bank	01/2014-01/2016	Unsecured Loan	-
Loan	Mega International Commercial Bank	01/2014-07/2016	Aircraft Type: 747-400/No.: B-18201&B18202	-
Loan	Taipei Fubon Commercial Bank	02/2014-02/2017	Unsecured Loan	-
Loan	Taipei Fubon Commercial Bank	02/2014-02/2017	Unsecured Loan	-
Loan	Bank SinoPac	03/2014-03/2017	Unsecured Loan	-
Loan	Far Eastern International Bank	03/2014-03/2017	Unsecured Loan	-
Loan	CTBC Bank	03/2014-03/2017	Unsecured Loan	-
Loan	Bank SinoPac	03/2014-03/2017	Unsecured Loan	-
Loan	Bank of Taiwan	03/2014-03/2017	Unsecured Loan	-
Loan	Taichung Commercial Bank	03/2014-06/2016	Unsecured Loan	-
Loan	Chang Hwa Commercial Bank	06/2014-06/2017	Unsecured Loan	-
Loan	Bank of Taiwan	07/2014-10/2016	Aircraft Type: A340-300/No.: B-18805/18806/18807	-
Loan	The Shanghai Commercial & Savings Bank	07/2014-07/2017	Unsecured Loan	-
Loan	Land Bank of Taiwan	09/2014-09/2016	Unsecured Loan	-
Loan	JihSun International Commercial Bank	09/2014-09/2017	Unsecured Loan	-
Loan	The Export-Import Bank of the Republic of China	12/2014-12/2016	Unsecured Loan	-
Loan	Chang Hwa Commercial Bank	12/2014-12/2017	Unsecured Loan	-
Loan	Taichung Commercial Bank	12/2014-12/2017	Unsecured Loan	-
Loan	Taishin International Bank	12/2014-12/2017	Unsecured Loan	-
Loan	Bank of Taiwan	12/2014-12/2019	Aircraft Type: 747-400F/No.: B-18701	-
Loan	Chang Hwa Commercial Bank	01/2015-01/2018	Unsecured Loan	-
Loan	Land Bank of Taiwan	01/2015-01/2018	Unsecured Loan	-
Loan	Taipei Fubon Commercial Bank	02/2015-02/2021	Aircraft Type: 747-400F/No.: B-18707	-
Loan	Hua Nan Commercial Bank	03/2015-03/2020	Unsecured Loan	-
Loan	Yuanta Commercial Bank	04/2015-01/2016	Unsecured Loan	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Loan	Mega International Commercial Bank	07/2015-07/2020	Aircraft Type: 747-400F/No.: B-18711	-
Loan	Bank of America Corporation	01/2016-01/2018	Unsecured Loan	-
Loan	Ta Chong Commercial Bank	01/2016-01/2018	Unsecured Loan	-
Loan	E.SUN Commercial Bank	02/2016-02/2019	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2016-06/2021	Unsecured Loan	-
Loan	Mega International Commercial Bank	08/2016-08/2019	Unsecured Loan	-
Loan	Land Bank of Taiwan	09/2016-09/2018	Unsecured Loan	-
Loan	KGI Bank	09/2016-09/2019	Unsecured Loan	-
Loan	Bank of Taiwan	10/2016-10/2028	Aircraft Type: A350-900/No.: B-18901	-
Loan	Bank of Communications	11/2016-11/2019	Unsecured Loan	-
Loan	Bank of Communications	01/2017-01/2029	Aircraft Type: A350-900/No.: B-18902	-
Loan	Taipei Fubon Commercial Bank	03/2017-01/2020	Unsecured Loan	-
Loan	Bank SinoPac	03/2017-03/2020	Unsecured Loan	-
Bills	International Bills Finance Corp	03/2009-03/2017	Aircraft Type: 737-800/No.: B-18601FRCP	-
Bills	China Bills Finance Corporation	03/2011-03/2016	FRCP	-
Bills	Mega Bills	03/2011-03/2016	FRCP	-
Bills	China Bills Finance Corporation and syndicate	09/2013-09/2016	FRCP Joint Underwriting, NT\$4,300,000,000	-
Bills	International Bills Finance Corp	09/2013-09/2016	FRCP	-
Bills	China Bills Finance Corporation and syndicate	06/2014-11/2017	FRCP Joint Underwriting, NT\$10,100,000,000	-
Bills	Mega Bills and syndicate	08/2014-11/2017	FRCP Joint Underwriting, NT\$5,000,000,000	-
Bills	Union Bank of Taiwan	01/2015-02/2018	FRCP	-
Bills	International Bills Finance Corp	02/2015-02/2021	Aircraft Type: 747-400F/No.: B-18710	-
Bills	Mega Bills	03/2015-05/2018	FRCP	-
Bills	International Bills Finance Corp and syndicate	12/2015-03/2019	FRCP Joint Underwriting, NT\$5,000,000,000	-
Bills	China Bills Finance Corporation	04/2016-04/2020	FRCP	-
Bills	Mega Bills	07/2016-07/2020	FRCP	-
Bills	International Bills Finance Corp	09/2016-09/2020	FRCP	-
Bills	China Bills Finance Corporation and syndicate	12/2016-12/2020	FRCP Joint Underwriting, NT\$5,000,000,000	-
Taipei CI Building Superficies Contract	Northern Region Branch, National Property Administration, MOF	12/31/2016-12/30/2026	Renew lease period for 10 years according to original contract. Rental price adjust base on Announced Land Current Value and assessed and publicly announced land value.	-
Taipei CAL Building Lease contract	FX Hotels Group Inc.	09/01/2010-12/30/2026	Rental subject: Located at No.131, Sec. 3, Nanjing E. Rd., Songshan Dist., Taipei City, CAL Building. Part of B1F 560.7 m ² , 1F 471.1 m ² , 10-13F 7,091 m ² . Total 8,016.9 m ² . 11 parking space at B1F	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Taipei CAL Building Lease contract	OEC Group	03/01/2016-12/31/2026	Rental subject: Located at No.131, Sec. 3, Nanjing E. Rd., Songshan Dist., Taipei City, CAL Building. 7F 1,796.8 m ² , part of B1F 50.4 m ² 1 parking space at B1F, 12 parking space at B2F.	-
Nankan CAL Park Land Lease contract	Costco Co.	Construction date: 01/2012-07/2012 Lease inception: Since business day or The day following the expiry of one year since construction commencement date Rental period: 20 years since lease inception	Rental subject: Land located at No.705 and No.705-1 Jinzhong part, Lujhu Dist., Taotuan City. Total 27,709.21 m ²	In accordance with notarized text
Kaohsiung CAL Building Lease contract	FX Hotels Group Co.	12/31/2012-12/30/2032	Rental subject: Located at No.81, Zhonghua 3rd Rd., Qianjin Dist., Kaohsiung City. B1F 383.2 m ² , 1F 336.8 m ² , mezzanine 79.4 m ² , 2F-12F 3,583.3 m ² , Roof protrusion 117.2 m ² . Total 4,499.9 m ²	-
CAL BOT Park Building Lease contract	CAL Park Co., Ltd	01/01/2017-12/31/2018 Renew every 2 years	Rental subject: Administration Center Building, Crew Center Building, Flight Training Center Building, Basement Parking Lot. Total 83107.4 m ² .	-

Financial Information

6.1 Five-Year Financial Summary

6.2 Five-Year Financial Analysis

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

**6.4 Parent Company Only Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

6.5 Audit Committee's Review Report

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT\$ thousands

Item	Year	Financial Summary for the Last Five Years (Note 1)					2017 (As of March 31) (Note 3)
		2012	2013	2014 (Note 2)	2015 (Note 5)	2016 (Note 6)	
Current assets		30,977,730	37,085,072	40,910,490	45,642,615	47,338,201	46,656,143
Property, Plant and Equipment		161,024,343	149,662,068	142,655,066	129,628,866	140,136,737	138,040,700
Intangible assets		425,000	489,412	670,997	1,009,678	1,137,115	1,118,115
Other assets		26,872,622	33,739,347	44,837,474	45,645,150	35,888,706	34,356,163
Total assets		219,299,695	220,975,899	229,074,027	221,926,309	224,500,759	220,171,121
Current liabilities	Before distribution	52,051,044	61,906,028	61,357,995	68,220,452	68,605,724	73,571,496
	After distribution	52,051,044	61,906,028	61,357,995	70,728,977	-	-
Non-current liabilities		113,957,742	106,179,511	116,730,020	93,149,314	98,027,837	92,792,528
Total liabilities	Before distribution	166,008,786	168,085,539	178,088,015	161,369,766	166,633,561	166,364,024
	After distribution	166,008,786	168,085,539	178,088,015	163,878,291	-	-
Equity attributable to shareholders of the parent		51,459,772	50,806,464	48,664,275	58,269,896	55,783,817	51,732,579
Capital stock		52,000,000	52,000,000	52,491,666	54,708,901	54,708,901	54,708,901
Capital surplus (Note 4)		1,405,394	1,924,015	480,462	798,415	799,932	799,932
Retained earnings	Before distribution	(1,841,688)	(3,161,115)	(3,870,736)	2,872,235	206,092	(3,557,052)
	After distribution	(1,841,688)	(3,161,115)	(2,358,783)	363,710	-	-
Other equity interest		(60,562)	86,936	(1,905,698)	(66,283)	112,264	(175,830)
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	(43,372)
Non-controlling interest		1,831,137	2,083,896	2,321,737	2,286,647	2,083,381	2,074,518
Total equity	Before distribution	53,290,909	52,890,360	50,986,012	60,556,543	57,867,198	53,807,097
	After distribution	53,290,909	52,890,360	50,986,012	58,048,018	-	-

Note 1: 2012 – 2016 annual financial information was verified by Deloitte & Touche.

Note 2: Beginning in 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission.

Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: As of the date of printing of this annual report, 2017 Q1 financial information has not yet been reviewed by Deloitte & Touche.

Note 4: The 2014 Deficit Compensation Proposal was passed by the Shareholders' General Meeting held on June 26, 2015 and additional paid-in capital of NT\$1,511,953,000 was used to compensate for the deficit.

Note 5: The 2015 Earnings Distribution Proposal resolution was passed by the Shareholders' General Meeting held on June 24, 2016. As required by law, the Company appropriated a legal reserve of NT\$287,224,000 and special reserve of NT\$76,486,000 and distributed cash dividends totaling NT\$2,508,525,000.

Note 6: The 2016 Deficit Compensation Proposal was passed during the 10th meeting of the 20th Board session held on March 30, 2017, but has not yet passed the Shareholders' General Meeting.

6.1.2 Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: NT\$ thousands; EPS (net) = NT\$

Item	Year	Financial Summary for the Last Five Years (Note 1)				2017 (As of March 31)	
		2012	2013	2014 (Note 2)	2015	2016	(Note 3)
Revenue		140,972,139	141,702,545	150,581,742	145,056,217	141,079,107	35,796,465
Gross profit		9,878,771	11,027,385	13,631,370	20,268,374	18,005,906	2,799,380
Operating Profit		(279,951)	726,268	2,518,747	8,129,197	4,564,687	(369,430)
Non-operating Income and Expenses		107,946	(1,087,448)	(2,156,321)	(994,312)	(2,684,836)	(3,147,460)
Pretax Profit (Loss)		(172,005)	(361,180)	362,426	7,134,885	1,879,851	(3,516,890)
Income from operations of continued segments - after tax		(220,158)	(948,880)	(597,488)	5,926,210	710,940	(3,713,367)
Income from discontinued operations		-	-	-	-	-	-
Net Income (Loss)		(220,158)	(948,880)	(597,488)	5,926,210	710,940	(3,713,367)
Other comprehensive income (Income/Loss after taxes)		(611,568)	121,723	(1,947,078)	1,269,760	(681,669)	(297,073)
Total Comprehensive Gain (Loss) for the Year		(831,726)	(827,157)	(2,544,566)	7,195,970	29,271	(4,010,440)
Net income attributable to shareholders of the parent		(418,356)	(1,274,046)	(749,073)	5,763,714	571,540	(3,760,875)
Net income attributable to non-controlling interest		198,198	325,166	151,585	162,496	139,400	47,508
Comprehensive income attributable to Shareholders of the parent		(972,318)	(1,171,929)	(2,693,811)	7,072,042	26,103	(4,048,969)
Comprehensive income attributable to non-controlling interest		140,592	344,772	149,245	123,928	3,168	38,529
Earnings (Loss) per share		(0.08)	(0.25)	(0.14)	1.06	0.10	(0.69)

Note 1: 2012 – 2016 annual financial information was verified by Deloitte & Touche.

Note 2: Beginning in 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission.

Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: As of the date of printing of this annual report, the 2017 Q1 financial information has not yet been reviewed by Deloitte & Touche.

6.1.3 Condensed Balance Sheet – Based on IFRS (The Parent Company Only)

Unit: NT\$ thousands

Item	Year	Financial Summary for the Last Five Years (Note 1)					2017 (As of March 31) (Note 3)
		2012	2013	2014 (Note 2)	2015 (Note 5)	2016 (Note 6)	
Current assets		26,291,653	31,333,434	34,477,533	37,904,039	39,908,492	-
Property, Plant and Equipment		151,677,995	139,946,013	131,178,428	118,446,472	129,121,632	-
Intangible assets		408,222	473,064	649,614	990,307	1,115,101	-
Other assets		31,440,804	39,304,463	51,594,035	51,802,032	41,394,218	-
Total assets		209,818,674	211,056,974	217,899,610	209,142,850	211,539,443	-
Current liabilities	Before distribution	50,800,740	59,940,257	59,079,846	64,725,525	64,339,805	-
	After distribution	50,800,740	59,940,257	59,079,846	67,234,050	-	-
Non-current liabilities		107,558,162	100,310,253	110,155,489	86,147,429	91,415,821	-
Total liabilities	Before distribution	158,358,902	160,250,510	169,235,335	150,872,954	155,755,626	-
	After distribution	158,358,902	160,250,510	169,235,335	153,381,479	-	-
Equity attributable to shareholders of the parent		51,459,772	50,806,464	48,664,275	58,269,896	55,783,817	-
Capital stock		52,000,000	52,000,000	52,491,666	54,708,901	54,708,901	-
Capital surplus (Note 4)		1,405,394	1,924,015	480,462	798,415	799,932	-
Retained earnings	Before distribution	(1,841,688)	(3,161,115)	(3,870,736)	2,872,235	206,092	-
	After distribution	(1,841,688)	(3,161,115)	(2,358,783)	363,710	-	-
Other equity interest		(60,562)	86,936	(1,905,698)	(66,283)	112,264	-
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	-
Non-controlling interest		-	-	-	-	-	-
Total equity	Before distribution	51,459,772	50,806,464	48,664,275	58,269,896	55,783,817	-
	After distribution	51,459,772	50,806,464	48,664,275	55,761,371	-	-

Note 1: 2012 – 2016 annual financial information was verified by Deloitte & Touche.

Note 2: Beginning in 2015, the Company began using the financial reporting standards in the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and these standards have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: The Company has not yet prepared an individual financial statement for Q1 2017.

Note 4: The 2014 Deficit Compensation Proposal was passed by the Shareholders' General Meeting held on June 26, 2015 and additional paid-in capital of NT\$1,511,953,000 was used to compensate for the deficit.

Note 5: The 2015 Earnings Distribution Proposal resolution was passed by the Shareholders' General Meeting held on June 24, 2016. As required by law, the Company appropriated a legal reserve of NT\$287,224,000 and special reserve of NT\$76,486,000 and distributed cash dividends totaling NT\$2,508,525,000.

Note 6: The 2016 Deficit Compensation Proposal was passed during the 10th meeting of the 20th Board session held on March 30, 2017, but has not yet passed the Shareholders' General Meeting.

6.1.4 Condensed Statement of Comprehensive Income – Based on IFRS (The Parent Company Only)

Unit: NT\$ thousands; EPS (net) = NT\$

Item \ Year	Financial Summary for the Last Five Years (Note 1)					2017 (As of March 31) (Note 3)
	2012	2013	2014 (Note 2)	2015	2016	
Revenue	132,135,468	131,752,677	139,726,168	133,441,725	127,524,864	-
Gross profit	8,101,923	8,307,802	10,917,174	17,623,801	15,275,980	-
Operating Profit	(776,590)	(283,782)	1,870,191	7,885,097	4,475,707	-
Non-operating Income and Expenses	317,827	(660,555)	(1,820,766)	(1,047,275)	(2,938,456)	-
Pretax Profit(Loss)	(458,763)	(944,337)	49,425	6,837,822	1,537,251	-
Income from operations of continued segments - after tax	(418,356)	(1,274,046)	(749,073)	5,763,714	571,540	-
Income from discontinued operations	-	-	-	-	-	-
Net Income(Loss)	(418,356)	(1,274,046)	(749,073)	5,763,714	571,540	-
Other comprehensive income (income/Loss after tax)	(553,962)	102,117	(1,944,738)	1,308,328	(545,437)	-
Total Comprehensive Gain (Loss) For The Year	(972,318)	(1,171,929)	(2,693,811)	7,072,042	26,103	-
Net income attributable to shareholders of the parent	(0.08)	(0.25)	(0.14)	1.06	0.10	-

Note 1: 2012 – 2016 annual financial information was verified by Deloitte & Touche.

Note 2: Beginning in 2015, the Company began using the financial reporting standards in the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and these standards have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: The Company has not yet prepared an individual financial statement for Q1 2017.

6.1.5 Condensed Balance Sheet – Based on ROC GAAP (The Parent Company Only)

Unit: NT\$ thousands

Item	Year	Financial Summary for the Last Five Years (Note 1)				
		2012	2013	2014	2015	2016
Current assets		28,317,304				
Funds & long-term investments		9,696,649				
Fixed assets		133,555,450				
Intangible assets		467,358				
Other assets		18,288,053				
Total assets		190,324,814				
Current liabilities	Before distribution	45,583,604	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	After distribution	45,583,604				
Long-term liabilities		80,214,485				
Other liabilities		12,385,494				
Total liabilities	Before distribution	138,183,583				
	After distribution	138,183,583				
Capital stock		52,000,000				
Capital surplus		1,405,394				
Retained earnings (Note 2)	Before distribution	4,248,184				
	After distribution	4,248,184				
Unrealized gain or loss on financial instruments		(182) (2,599,694)				
Cumulative translation adjustments		(2,917,215)				
Unrealized revaluation increments		41,298				
Treasury shares		(36,554)				
Total equity	Before distribution	52,141,231				
	After distribution	52,141,231				

Note 1: 2012 annual financial information was verified by Deloitte & Touche.

Note 2: The above after distribution figures are filled in based on the resolution passed at the previous year's Shareholders' Meeting.

6.1.6 Condensed Statement of Comprehensive Income – Based on ROC GAAP (The Parent Company Only)

Unit: NT\$ thousands; EPS (net) = NT\$

Item	Year	Financial Summary for the Last Five Years (Note 1)				
		2012	2013	2014	2015	2016
Revenue		132,608,831				
Gross profit		9,182,377				
Operating profit		343,090				
Non-operating income and gain		2,116,262				
Non-operating expenses and loss		2,324,009				
Pretax profit (loss)		135,343				
Income from operations of continued segments - after tax		58,804	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Income from discontinued operations		-				
Extraordinary gain or loss		-				
Cumulative effect of accounting principle changes		-				
Net Income (loss)		58,804				
Earnings (loss) per share		0.01				

Note 1: 2011 – 2012 annual financial information was verified by Deloitte & Touche.

6.1.7 Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	Name of CPA	Audit Opinion
2012	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Unqualified Opinion
2013	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Unqualified Opinion
2014	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Unqualified Opinion
2015	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Qualified Opinion (Note)
2016	Deloitte & Touche	Yang, Chen-Hsiu; Chen, Li-Chi	Unqualified Opinion

Note: Beginning in 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous period's financial statement.

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis – Based on IFRS

Item (Note 5)	Year	Financial Summary for The Last Five Years (Note 1)					2017 (As of March 31) (Note 4)
		2012	2013	2014 (Note 2)	2015	2016	
Financial structure (%)	Debt Ratio	75.70	76.07	77.74	72.71	74.22	75.56
	Ratio of long-term capital to property, plant and equipment	103.87	106.29	117.57	118.57	111.24	106.20
Solvency (%)	Current ratio	59.51	59.91	66.68	66.90	69.00	63.42
	Quick ratio	45.30	47.96	53.49	53.06	53.16	48.16
	Interest earned ratio (times)	89.91	77.14	115.55	496.25	265.40	(744.76)
Operating performance	Accounts receivable turnover (times)	15.89	18.50	17.45	16.98	17.67	17.18
	Average collection period	22.97	19.73	20.91	21.49	20.66	21.25
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Property, plant and equipment turnover (times)	0.84	0.91	1.03	1.07	1.05	1.03
	Total assets turnover (times)	0.62	0.64	0.67	0.64	0.63	0.64
Profitability	Return on total assets (%)	0.83	0.37	0.48	3.28	0.80	(6.19)
	Return on stockholders' equity (%)	(0.44)	(1.79)	(1.15)	10.63	1.20	(26.60)
	Pre-tax income to paid-in capital (%)	(0.33)	(0.69)	0.69	13.04	3.44	(25.71)
	Profit ratio (%)	(0.16)	(0.67)	(0.40)	4.09	0.50	(10.37)
	Earnings per share (NT\$)	(0.08)	(0.25)	(0.14)	1.06	0.10	(0.69)
Cash flow	Cash flow ratio (%)	34.58	34.71	27.56	46.60	25.71	18.67
	Cash flow adequacy ratio (%)	83.83	129.04	207.19	233.25	251.61	225.74
	Cash reinvestment ratio (%)	6.43	7.50	5.48	10.56	4.83	4.61
Leverage	Operating leverage	(62.01)	25.65	8.19	3.21	4.99	(2.27)
	Financial leverage	0.10	(0.52)	5.04	1.28	1.40	0.53

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

- Interest earned ratio: Because 2016 pre-tax net income was lower than the previous year, the interest earned ratio also decreased.
- Profitability: Because 2016 net income was lower than the previous year, all profitability items also decreased.
- Cash flow ratio and cash reinvestment ratio: Because 2016 net cash inflows from business operations were lower than the same period last year, the cash flow ratio and cash reinvestment ratio also declined.
- Operating leverage: Operating leverage increased primarily due to lower operating profits in 2016 compared to the same period the previous year.

6.2.2 Financial Analysis – Based on IFRS (The Parent Company Only)

Item (Note 5)	Year	Financial Summary for the Last Five Years (Note 1)					2017 (As of March 31) (Note 4)
		2012	2013	2014 (Note 3)	2015	2016	
Financial structure (%)	Debt Ratio	75.47	75.93	77.67	72.14	73.63	-
	Ratio of long-term capital to fixed assets	104.84	107.98	121.07	121.93	114.00	-
Solvency (%)	Current ratio	51.75	52.27	58.36	58.56	62.03	-
	Quick ratio	37.67	40.36	45.32	44.54	45.82	-
	Interest earned ratio (times)	78.36	49.95	100.38	495.43	246.03	-
Operating performance	Accounts receivable turnover (times)	15.14	17.26	16.23	15.56	15.92	-
	Average collection period	24.10	21.14	22.49	23.46	22.92	-
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Fixed assets turnover (times)	0.84	0.90	1.03	1.07	1.03	-
	Total assets turnover (times)	0.61	0.63	0.65	0.62	0.61	-
Profitability	Return on total assets (%)	0.75	0.20	0.41	3.36	0.75	-
	Return on stockholders' equity (%)	(0.86)	(2.49)	(1.51)	10.78	1.00	-
	Pre-tax income to paid-in capital (%)	(0.88)	(1.82)	0.09	12.50	2.81	-
	Profit ratio (%)	(0.32)	(0.97)	(0.54)	4.32	0.45	-
	Earnings per share (NT\$)	(0.08)	(0.25)	(0.14)	1.06	0.10	-
Cash flow	Cash flow ratio (%)	32.95	33.43	25.44	47.38	26.71	-
	Cash flow adequacy ratio (%)	79.69	135.16	209.68	232.93	252.92	-
	Cash reinvestment ratio (%)	6.25	7.31	5.10	10.74	4.94	-
Leverage	Operating leverage	(20.73)	(59.39)	10.21	3.15	4.85	-
	Financial leverage	0.24	0.12	(19.66)	1.28	1.38	-

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

- Interest earned ratio: Because 2016 pre-tax net income was lower than the previous year, the interest earned ratio also decreased.
- Profitability: Because 2016 net income was lower than the previous year, all profitability items also decreased.
- Cash flow ratio and cash reinvestment ratio: Because 2016 net cash inflows from business operations were lower than the same period last year, the cash flow ratio and cash reinvestment ratio also declined.
- Operating leverage: Operating leverage increased primarily due to lower operating profits in 2016 compared to the same period the previous year.

Note 1: 2012 – 2016 annual financial information was verified by Deloitte & Touche.

Note 2: Beginning in 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: Beginning in 2015, the Company began using the financial reporting standards in the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and these standards have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 4: As of printing of this annual report, Q1 2017 consolidated financial information has not yet been reviewed by Deloitte & Touche. The Company has not yet prepared an individual financial statement for Q1 2017.

Note 5: The calculations of the above financial ratios utilize the formulas listed below:

- Financial structure
 - Debt ratio = total liabilities / total assets
 - Ratio of long-term capital to property, plant and equipment = (total shareholders' equity + non-current liabilities) / net property, plant and equipment
- Solvency
 - Current ratio = current assets / current liabilities
 - Quick ratio = (current assets – inventory – prepaid expenses) / current liabilities
 - Interest earned ratio (times) = earnings before interest and taxes / interest expenses
- Operating performance
 - Accounts receivable turnover (including accounts receivable and notes receivable arising from business activities) = net sales / average accounts receivable (including accounts receivable and notes receivable arising from business activities)
 - Average collection period = 365 / average accounts receivable turnover
 - Inventory turnover = cost of goods sold / average inventory
 - Accounts payable turnover (including accounts payable and notes payable arising from business activities) = cost of goods sold / average accounts payable (including accounts payable and notes payable arising from business activities)
 - Average inventory turnover days = 365 / inventory turnover ratio
 - Property, Plant and Equipment Turnover = net sales / net property, plant and equipment
 - Total asset turnover = net sales / average total assets
- Profitability
 - Return on total assets = [net income + interest expense x (1 - effective tax rate)] / average total assets
 - Return on stockholders' equity = net income / average stockholders' equity

(3) Net margin = net income / net sales

(4) Earnings per share = (net income attributable to owners of the parent – preferred stock dividends) / weighted average number of shares outstanding

5. Cash flow

(1) Cash flow ratio = net cash flows from operating activities / current liabilities

(2) Cash flow adequacy ratio = five year sum of net cash flows from operating activities / five year sum of (capital expenditures + increase in inventory + cash dividends)

(3) Cash Flow Cash Reinvestment Ratio = (net cash flows from operating activities – cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital)

6. Leverage

(1) Operating Leverage = (net sales – variable operating costs and expenses) / operating profit

(2) Financial Leverage = operating profit / (operating profit – interest expenses)

6.2.3 Consolidated Financial Analysis – Based on ROC GAAP

Item (Note 3)	Year	Financial Summary for The Last Five Years (Note 1)					
		2012	2013 (Note 2)	2014 (Note 2)	2015 (Note 2)	2016 (Note 2)	
Financial structure (%)	Debt Ratio	72.33	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
	Ratio of long-term capital to fixed assets	95.87					
Solvency (%)	Current ratio	71.81					
	Quick ratio	52.10					
	Interest earned ratio (times)	115.43					
Operating performance	Accounts receivable turnover (times)	15.92					
	Average collection period	23.00					
	Inventory turnover (times)	-					
	Accounts payable turnover (times)	-					
	Average days in sales	-					
	Fixed assets turnover (times)	0.99					
	Total assets turnover (times)	0.72					
Profitability	Return on total assets (%)	1.01					
	Return on stockholders' equity (%)	0.46					
	Ratio to issued capital (%)	Operating income					1.86
		Pre-tax income					0.86
	Profit ratio (%)	0.17					
Earnings per share (NT\$)	0.01						
Cash flow	Cash flow ratio (%)	27.73					
	Cash flow adequacy ratio (%)	66.06					
	Cash reinvestment ratio (%)	4.99					
Leverage	Operating leverage	13.14					
	Financial leverage	(0.77)					

Analysis of financial ratio differences for the last two years (Not required if the difference does not exceed 20%): Not Applicable.

6.2.4 Financial Analysis – Based on ROC GAAP (The Parent Company Only)

Item (Note 3)	Year	Financial Summary for the Last Five Years(Note 1)					
		2012	2013 (Note 2)	2014 (Note 2)	2015 (Note 2)	2016 (Note 2)	
Financial structure (%)	Debt Ratio	72.60	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
	Ratio of long-term capital to fixed assets	99.10					
Solvency (%)	Current ratio	62.12					
	Quick ratio	42.43					
	Interest earned ratio (times)	106.26					
Operating performance	Accounts receivable turnover (times)	15.20					
	Average collection period	24.02					
	Inventory turnover (times)	-					
	Accounts payable turnover (times)	-					
	Average days in sales	-					
	Fixed assets turnover (times)	0.99					
	Total assets turnover (times)	0.70					
Profitability	Return on total assets (%)	0.94					
	Return on stockholders' equity (%)	0.12					
	Ratio to issued capital (%)	Operating income					0.66
		Pre-tax income					0.26
	Profit ratio (%)	0.04					
Earnings per share (NT\$)	0.01						
Cash flow	Cash flow ratio (%)	24.75					
	Cash flow adequacy ratio (%)	57.56					
	Cash reinvestment ratio (%)	4.58					
Leverage	Operating leverage	34.68					
	Financial leverage	(0.19)					

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%): Not Applicable.

Note 1: 2012 annual financial information was verified by Deloitte & Touche.

Note 2: 2013-2016 financial statements were prepared according to IFRS, so there are no financial statements in these years prepared according to ROC GAAP.

Note 3: The calculations of the above financial ratios utilize the formulas listed below:

1. Financial structure
 - (1) Debt Ratio = total liabilities / total assets
 - (2) Ratio of long-term capital to fixed assets = (shareholders' equity + long-term liabilities) / net fixed assets
2. Solvency
 - (1) Current ratio = current assets / current liabilities
 - (2) Quick ratio = (current assets – inventory – prepaid expenses) / current liabilities
 - (3) Interest earned ratio (times) = earnings before interest and taxes / interest expenses
3. Operating performance
 - (1) Accounts receivable turnover (including accounts receivable and notes receivable arising from business activities) = net sales / average accounts receivable (including accounts receivable and notes receivable arising from business activities)
 - (2) Average collection period (days) = 365 / average accounts receivable turnover
 - (3) Inventory turnover = cost of goods sold / average inventory
 - (4) Accounts payable turnover (including accounts payable and notes payable arising from business activities)
 - (5) Average days in sales = 365 / inventory turnover ratio
 - (6) Fixed Asset Turnover = net sales / net fixed assets
 - (7) Total Asset Turnover = net sales / average total assets
4. Profitability
 - (1) Return on total assets = [net income + interest expense x (1 – effective tax rate)] / average total assets
 - (2) Return on stockholders' equity = net income / average stockholders' equity
 - (3) Net Margin = net income / net sales
 - (4) Earnings per Share = (net income after tax – preferred stock dividends) / weighted average number of shares outstanding
5. Cash flow
 - (1) Cash Flow Ratio = net cash flows from operating activities / current liabilities
 - (2) Cash Flow Adequacy Ratio = five year sum of net cash flows from operating activities / five year (sum of capital expenditures+ increase in inventory + cash dividends)
 - (3) Cash Flow Reinvestment Ratio = (net cash flows from operating activities – cash dividends) / (gross fixed assets + long-term investments + other assets + working capital)
6. Leverage
 - (1) Operating Leverage = (net sales – variable operating costs and expenses) / operating profit
 - (2) Financial Leverage = operating profit / (operating profit – interest expenses)

**6.3 Consolidated Financial Statements for the Years Ended
December 31, 2016 and 2015, and Independent Auditors' Report:
Please refer to Appendix 1.**

**6.4 Parent Company Only Financial Statements for the Years Ended
December 31, 2016 and 2015 and Independent Auditors' Report:
Please refer to Appendix 2.**

6.5 Audit Committee's Report for the Most Recent Year

Audit Committee Report

The Board of Directors shall create and send (1) the 2016 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 30, 2017 and (2) the 2016 business report and Deficit Compensation Statement, after having been found to have no discrepancies by this audit committee and, thereupon, issue 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

30 March 2017

Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

7.2 Analysis of Operation Results

7.3 Analysis of Cash Flow

7.4 Major Capital Expenditure Items

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

7.6 Analysis of Risk Management

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status (Consolidated)

Analysis of changes in assets, liabilities and equity over the past two years:

Unit: NT\$ thousands

Item	Year	2016	2015	Difference	
				Amount	%
Current Assets		47,338,201	45,642,615	1,695,586	3.71
Property, Plant and Equipment		140,136,737	129,628,866	10,507,871	8.11
Intangible Assets		1,137,115	1,009,678	127,437	12.62
Other Assets		35,888,706	45,645,150	(9,756,444)	(21.37)
Total Assets		224,500,759	221,926,309	2,574,450	1.16
Current Liabilities		68,605,724	68,220,452	385,272	0.56
Non-Current Liabilities		98,027,837	93,149,314	4,878,523	5.24
Total Liabilities		166,633,561	161,369,766	5,263,795	3.26
Capital stock		54,708,901	54,708,901	-	-
Capital surplus		799,932	798,415	1,517	0.19
Retained Earnings		206,092	2,872,235	(2,666,143)	(92.82)
Other Equity		112,264	(66,283)	178,547	269.37
Treasury shares		(43,372)	(43,372)	-	-
Non-Controlling Interests		2,083,381	2,286,647	(203,266)	(8.89)
Total Equity		57,867,198	60,556,543	(2,689,345)	(4.44)

Analysis of changes in financial ratios:

1. Other assets: Primarily due to the delivery of four A350 airliners, the prepayment for the purchase then transferred to property, plant and equipment. Additionally, with the delivery of all 777 aircraft, they have been transferred to leasing companies and the prepaid deposits were returned.
 2. Retained earnings: Primarily due to earnings distributed as cash dividends of NT\$2.509 billion. In 2016, net income after tax was NT\$572 million and the 2016 defined benefit plan remeasurement reduced retained earnings by NT\$724 million.
 3. Other equity: Primarily due to 2015 unrealized losses of cash flow hedging recorded as income (loss).
- Future response actions: The above changes do not have a large effect on the Company.

7.2 Analysis of Financial Performance (Consolidated)

Financial Performance Analysis Table

Unit: NT\$ thousands

Item \ Year	2016	2015	Difference	
			Amount	%
Revenue	141,079,107	145,056,217	(3,977,110)	(2.74)
Cost	123,073,201	124,787,843	(1,714,642)	(1.37)
Gross Profit	18,005,906	20,268,374	(2,262,468)	(11.16)
Operating Expenses	13,441,219	12,139,177	1,302,042	10.73
Operating Income	4,564,687	8,129,197	(3,564,510)	(43.85)
Non-operating Income and Expenses	(2,684,836)	(994,312)	(1,690,524)	(170.02)
Pretax Profit	1,879,851	7,134,885	(5,255,034)	(73.65)
Income Tax Expense	1,168,911	1,208,675	(39,764)	(3.29)
Net Income (Loss)	710,940	5,926,210	(5,215,270)	(88.00)
Other Comprehensive Income	(681,669)	1,269,760	(1,951,429)	(153.68)
Total Comprehensive Gain (Loss) For The Year	29,271	7,195,970	(7,166,699)	(99.59)

Analysis of changes in financial ratios:

1. Operating income, pretax profit, and net income for the period: 2016 cargo transport revenue was lower than in 2015 primarily due to the impact of the overall economic situation and trade demand slowing, which resulted in lower operating income, pre-tax net income, and net income for the period.
2. Non-operating income and expenses: Primarily due to the NT\$1.661 billion dividend from the disposal of ABACUS in 2015.
3. Other comprehensive income (net): Primarily due to 2015 unrealized losses of cash flow hedging recorded as income (loss).
4. Total comprehensive income for the period: 2016 cargo transport revenue was lower than in 2015 primarily due to the impact of the overall economic situation and trade demand slowing and 2016 non-operating income and expenses showed a larger loss than in 2015, primarily due to the NT\$1.661 billion dividend from the disposal of ABACUS. 2015 unrealized losses of cash flow hedging recorded as income (loss).

7.3 Analysis of Cash Flow (Consolidated)

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT\$ thousands

Item \ Year	2016	2015	Difference	
			Amount	%
Cash and Cash Equivalents, Beginning of Year	23,491,085	20,468,151	3,022,934	14.77
Net Cash Flow from Operating Activities	17,636,372	31,790,693	(14,154,321)	(44.52)
Net Cash Flow from Investing Activities	(21,021,616)	(10,441,578)	(10,580,038)	(101.33)
Net Cash Flow from Financing Activities	4,208,402	(17,985,994)	22,194,396	123.40
Exchange Rate Adjustment	(47,046)	(340,187)	293,141	86.17
Cash and Cash Equivalents, End of Year	24,267,197	23,491,085	776,112	3.30

Analysis of change in cash flow in the current year:

1. The reduction in cash flow from operating activities was primarily due to reduced operational performance in 2016 compared to the previous year and a one-time supplemental payment to top up the Bank of Taiwan pension account.
2. The difference in cash flow from investing activities is primarily due to the payment remittance to purchase Airbus A350 airliners.
3. The difference in cash flow from financing activities is primarily due to issuance of corporate bonds in 2016.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis: None.

7.3.3 Cash Flow Analysis for the Coming Year

The cash balance at the beginning of the year was NT\$19.73 billion and estimated net cash flow from operating activity for the year is NT\$26.87 billion. Cash flow from investment and financing activities are estimated to total NT\$26.7 billion and NT\$36.88 billion respectively. The cash shortfall was made up through mortgage loans, corporate bond issuance, and medium-term Unsecured Loans of NT\$37.7 billion and the cash and cash equivalents at the end of the year totaled NT\$20.72 billion.

7.4 Major Capital Expenditure Items (The Parent Company Only)

Major capital expenditures primarily include purchases of new airplanes as part of operational expansion, which does not have a significant impact on the Company's financial operations.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

In order to support our primary airline operations and strengthen competitiveness of the CAL Group, investments are primarily in airline industry-related companies. Currently, these include air transport, ground services, logistics and warehousing, air cargo terminals, airline catering, laundry, information networks, aeronautics, tourism services, and investing and leasing industries to create a comprehensive air service network and wide-ranging services. Calculated under the equity method, reinvestment revenues for 2016 totaled NT\$101 million.

Over the next year, the invested enterprises will continue China Airlines Hotel expansion and Taiwan Aircraft Maintenance and Engineering Co., Ltd. hangar construction. In addition, we will assess potential investments in passenger transport, cargo transport, airplane maintenance, and aviation training.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

A. Impact of changes in interest rates, foreign exchange rates, and inflation on Company income:

Although changes in interest and foreign exchange rates do have a level of impact on Company income, through effective controls the impact is limited.

B. Response measures to changes in interest rates, foreign exchange rates, and inflation:

To prevent changes in interest rates, foreign exchange rates, and inflation from creating risks to the Company's overall finances, we hold regular meetings of the Board of Directors Risk Committee, and keep on top of economic and financial developments both in Taiwan and overseas to develop a hedging strategy, evaluate performance of derivatives, and set the appropriate hedge ratio. These controls help prevent changes by utilizing financial hedging instruments in the financial environment and oil prices from creating systemic financial risks and enable CAL to achieve proper risk management.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

- A. The Company does not engage in high-risk, highly-leveraged investments.
- B. The Company has developed Operational Procedures for Lending Funds to Others and Operational Procedures for Endorsements/Guarantees and risks of such operations are controlled through strict assessment. Therefore, loans and endorsements/guarantees do not lead to profits or losses for the Company.
- C. Company derivative products include forward foreign exchange and foreign exchange options contracts and oil options contracts, which are primarily to hedge against the risk of fluctuations in oil prices, interest rates, and foreign exchange rates. Transactions are performed in accordance with the Company's Operational Procedures for Derivatives Trading and are regularly evaluated to ensure effective risk controls.

7.6.3 Future Research & Development Projects and Corresponding Budget: Please refer to page 81.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales: None.

7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales: None.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures:

China Airlines has tirelessly worked to build a positive image. We continue to enhance our transport services and airplane maintenance to ensure flying safety. In the spirit of SOP+, we properly implement every service detail. The Company actively promotes social welfare to fulfil our corporate social responsibility. Environmental management has become an operational focus, to do our part to protect the Earth. In the case of a false negative news story, information, or situation that damages our brand image, the Company will react instantly and hold a press conference or issue a press release correction. We will communicate with the media immediately and issue clarification on our website or through social media platforms to reduce negative impact.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: None.

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans: None.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration: None.

7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%: None.

7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights: None.

7.6.12 Litigation or Non-litigation Matters

A. Any major litigation, non-litigation or administrative disputes involving the Company that are already finalized or still pending.

No.	Case Name	Summary	Disputed Amount (NT\$)	Litigants	Current Status
1	Litigation for refunding overpayment on aircraft rental	<p>1. In 2002, the Civil Aeronautics Administration (CAA) unilaterally terminated an aircraft rental contract with the Company for six aircraft, resulting in early termination of the contract, which changed the nature of the lease and the rent calculation basis and resulted in rent overpayment by the Company.</p> <p>2. In 2010, the CAA resolved that the Civil Aeronautics Administration should pay the Company more than NT\$1.5 billion and in 2015 the Supreme Court revoked the arbitration judgement, which resulted in the Company filing a civil lawsuit against the CAA to recoup the aforementioned rent overpayment.</p>	More than 1.2 billion	Plaintiff: China Airlines Defendant: Civil Aeronautics Administration	CAL appointed a lawyer on August 31, 2016 to file a civil complaint in the Taiwan Taipei District Court and the lawyer is currently proceeding with the argument procedures.
2	US Passenger Fare Antitrust Class Action Lawsuit	In December 2007, because major global passenger airlines charged passenger transport fees and fuel surcharges and as a member of Association of Asia Pacific Airlines, the Company was listed as a joint defendant. The case is being heard by the District Court of California, San Francisco.	Currently no specific claim figures. The claim is for punitive damages of three times the fuel surcharge overcharged during the disputed period	Plaintiff: Global passenger group representative Defendant: China Airlines and more than 10 other airlines	CAL has joined the common defense group set up by the defendant airlines' lawyer. The pre-trial evidence disclosure deadline was on January 31, 2014 and the plaintiffs were not able to provide evidence that proved the claim at the basis of the lawsuit.

B. Major litigation, non-litigation or administrative disputes involving a subsidiary (TACT Logistics) that are already finalized or still pending:

TACT Logistics' 2001 income tax filing had already been approved by the tax authorities, but after review, the same authority found over-allocation of that year's imputation tax credit by NT\$129,350,000 and required this amount be paid and issued a fine for the same amount. TACT Logistics did not accept this finding and, in accordance with the law, filed a review, appeal, and civil action. On December 8, 2011, the Supreme Administrative Court ruled to confirm the additional tax payment of NT\$129,350,000. In accordance with this ruling, TACT Logistics paid this amount in additional taxes. In regards to recalculation of the fine, because the competent authority continued the previous approval, TACT Logistics applied for administrative relief in a separate case. The Supreme Administrative Court ruled on June 15, 2016 and TACT refused to accept the result so appealed to the Court on July 4, 2016 and has already estimated a fine of NT\$59,501,000. As of March 31, 2017 no ruling has been made, but based on the current status of the case, no serious impact will be experienced by the Company nor will it affect shareholder rights and interests or the stock price.

7.6.13 Other Major Risks:

CAL fully understands the importance of risk management and the potential for interaction between different types of risk. We established the Risk Committee directly under the supervision of the Board of Directors to strengthen risk management and require subordinate units to control for each major risk category.

The CAL risk management organization and units responsible for implementation:

Type of Risk	Responsible Department	Risk Management Measures
Operating Risk	Corporate Development Office	The aviation industry operating environment is ever changing. Major political and economic events as well as unexpected internal or external incidents can have a huge impact on Company operations. The Corporate Development Office analyses potential political, economic, aviation industry, and internal Company situations that could affect the Company and proposes concrete response plans to reduce their impact on China Airlines' strategic direction and annual business plan.
Safety Risk	Corporate Safety Office	Safety is the cornerstone of airline operations and only a good record of flight safety can earn passenger trust. The Corporate Safety Office utilizes the Safety Management System (SMS) to identify and evaluate important internal and external operating risks including flights, aircraft, in-flight service, and ground handling, then proposes improvement measures.
Financial Risk	Finance Div.	The domestic and global economy affects Company operating results. Primary operating costs for airlines include interest rate, exchange rate, and fuel and influence by outside factors can result in significant volatility. Therefore, the Finance Division utilizes financial hedging instruments to fix the above factors within a certain range, regularly monitors financial risk, and establishes relevant strategies and measures to effectively manage financial risk.

7.7 Other Important Matters: None.

Special Disclosure

8.1 Summary of Affiliated Companies

**8.2 Private Placement Securities in the Most Recent
Years**

**8.3 The Shares in the Company Held or Disposed of by
Subsidiaries in the Most Recent Years**

8.4 Special Notes

**8.5 Situations with Major Impacts on Shareholder
Equity or Share Prices**

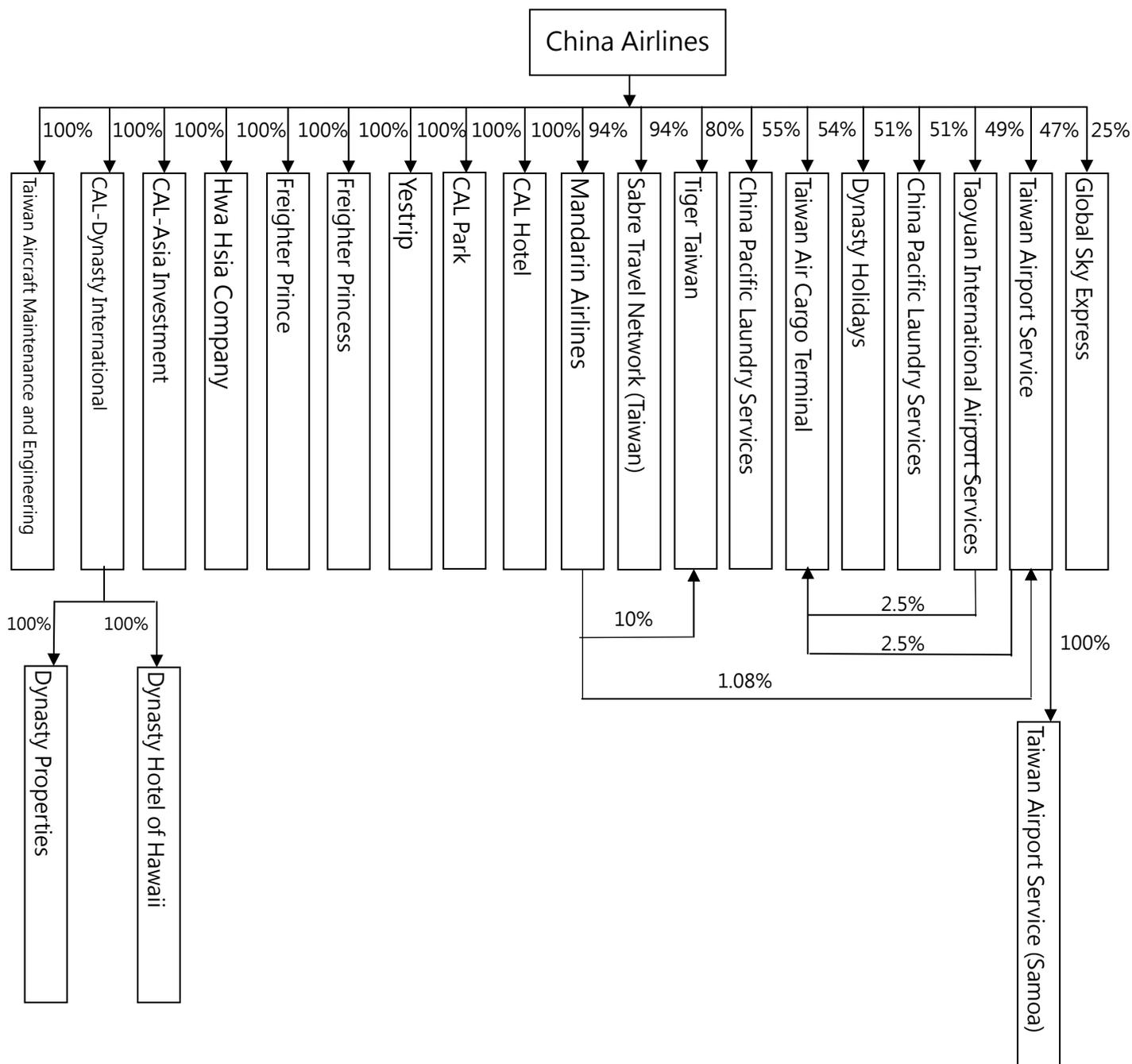
VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Basic information of Affiliated Companies

A. Affiliated Companies Chart

Dec 31, 2016



※China Pacific Laundry Services and China Pacific Catering Services Ltd. are both jointly controlled

...

B. Basic information of Affiliated Company

Dec 31, 2016/Unit: NT\$ thousands

Company	Date Founded	Address	Capital (Note)	Principal Activities
1. CAL-Dynasty International, Inc.	07/01/1991	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	843,387	Holding & investing
1A Dynasty Properties Co., Ltd.	08/15/1973	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	16,129	Real estate investing, property leasing
1B Dynasty Hotel of Hawaii, Inc.	12/10/1973	1830 Ala Moana Blvd. Honolulu, Hawaii 96815, U.S.A.	129,032	Hotel service
2. CAL-Asia Investment Inc.	06/29/1995	263 Main Street, P.O. Box 2196, Road Town, Tortola, British Virgin Island	231,366	Holding & investing
3. Hwa Hsia Company Ltd.	05/11/1989	No. 9, Hangqin South Road, Dayuan District Taoyuan City	77,270	Aviation ground handling service, cleaning service
4. Freighter Prince Ltd.	09/06/2001	Ugland House, P.O.Box 309, George Town, Grand Cayman, Cayman Islands, British West	33	Aircraft leasing
5. Freighter Princess Ltd.	01/11/2002	Ugland House, P.O.Box 309, George Town, Grand Cayman, Cayman Islands, British West	33	Aircraft leasing
6. Yestrip Co., Ltd.	01/18/2001	10F, No.9,Section 3,Nanjing E Rd, Zhongshan District, Taipei City	16,000	Travel service
7. CAL Park Co., Ltd.	09/06/2006	No. 1, Hangzhan S Rd, Dayuan District ,Taoyuan City	1,500,000	Real estate leasing, parking lot management
8. CAL Hotel Co., Ltd.	01/03/2007	No. 1-1, Hangzhan S Rd, Dayuan District ,Taoyuan City	465,000	Hotel business
9. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	01/16/2015	No. 15, Hangqin South Road, Dayuan District, Taoyuan City	160,000	aircraft maintenance and repair
10. Mandarin Airlines, Ltd.	04/29/1991	No. 3, Alley 123, Lane 405, Dunhua North Road, Songshan District, Taipei City	2,001,825	Civil air transport
11. Sabre Travel Network (Taiwan) Ltd.	10/09/1990	No. 57, Fuxing North Road, Songshan District, Taipei City	138,618	IT service & GDS
12. Tiger Taiwan Co., Ltd.	04/21/2014	No. 1, Hangzhan S Rd, Dayuan District ,Taoyuan City	2,000,000	Civil air transport
13. China Pacific Laundry Services Ltd.	09/08/1997	No. 7, Lane 54, Sande Street, Luzhu District, Taoyuan City	250,000	laundry service
14. Taiwan Air Cargo Terminal Ltd.	12/22/1999	No. 10-1, Hangqin North Road, Dayuan District, Taoyuan City	2,500,000	Air cargo and storage service
15. Dynasty Holidays, Inc.	10/28/1980	5F, You Ei Ginza Second Building, 9-7, 1Chome, Ginza, Chuo-Ku, Tokyo, Japan	11,080	Travel service
16. China Pacific Catering Services Ltd.	08/19/1994	No. 22, Lane 156, Section 2, Haishan Rd, Luzhu District, Taoyuan City	861,000	Catering service
17. Taoyuan International Airport Services Co., Ltd.	11/08/1978	No. 15, Hangqin North Road, Dayuan District, Taoyuan City	700,000	Aviation ground handling service
18. Taiwan Airport Service Co., Ltd.	07/19/1966	No. 340, Dunhua N Rd, Songshan District, Taipei City	435,600	Aviation ground handling service
18A Taiwan Airport Service (Samoa) Co., Ltd.	03/22/2004	TrustNet Chambers, Lotemau Centre, P. O. Box 1225, Apia, Samoa	222,728	Holding & investing
19. Global Sky Express Ltd.	09/29/1994	No. 186, Section 4, Nanjing East Road, Songshan District	10,000	Air freight forwarder

Note: Capital was calculated using the exchange rate at the end of 2016: 1TWD=0.0310USD, 3.6101JPY, 0.2154CNY.

C. Overall Description of the Industries in which Affiliated Companies (Including Subsidiaries and Other Invested Companies) Operate

China Airlines' affiliated companies can be divided into seven categories, each of which is highly dependent on the Company's operations, and include airlines, ground services, air transport support, aerospace technology, logistics and warehousing, tourism and leisure, and investment and leasing. The categories are described below:

Classification	Description
Airlines	Mandarin Airlines provides domestic and international passenger and cargo air transport services to further capitalize on our competitive advantage in the cross-strait market. Tigerair Taiwan is tasked with operating in the Asian low-cost carrier market to develop new business opportunities.
Ground Handling Services	Ground services at Taiwan Taoyuan and Taitung Airports are provided by Taoyuan International Airport Services Co., Ltd., while Kaohsiung Airport and all other domestic airports are serviced by Taiwan Airport Service Co., Ltd. Overseas, the Company has invested in Jardine Aviation Services in Hong Kong, which serves as China Airlines' ground handling agent in Hong Kong. Cleaning and repair ground services are provided by Hwa Hsia Company Ltd..
Air Transport Support	The Company has invested in domestic airline reservation system operations and maintenance provider Sabre Travel Network (Taiwan) Ltd. Overseas, the Company invested in Singapore's Everest Company. In-flight catering services are provided for northern Taiwan by China Pacific Catering Services Ltd. and by Kaohsiung Airport Catering Services in the South. China Pacific Laundry Services Ltd. provides laundry services for textiles and clothing used aboard aircraft and general laundry services for the hospitality industry.
Logistics and Warehousing	Domestically, TACT Logistics is responsible for providing warehousing services at Taiwan Taoyuan Airport and Kaohsiung International Airport. In Mainland China, the Company made indirect investments in Xiamen International Airport Co., Ltd and Xiamen International Airport Air Cargo Service Co., Ltd. Logistics services are provided domestically by invested companies Global Sky Express Ltd., Chung Hwa Express Corp., and Science Park Logistics. Overseas, the Company has indirectly invested in Hong Kong's Eastern United International Logistics.
Aerospace Technology	Aerospace technology industry investments in Taiwan included Taiwan Aircraft Maintenance and Engineering Co., Ltd., which is responsible for maintenance of Boeing 777 and 737 aircraft and Airbus A320 and A350 aircraft, while Asian Compressor Technology Services Co. repairs PW4000 engines and other high-value added parts. In Mainland China, invested company Taikoo (Xiamen) Landing Gear Services Co., Ltd. produces and maintains landing gear and Taikoo Spirit AeroSystems (Jinjiang) Composite Co., Ltd. provides composite material maintenance services. The Company also invested in China Aircraft Services Limited to improve China Airlines' aircraft maintenance capabilities in Hong Kong.
Tourism and Leisure	Domestic investments include Yestrip and CAL Hotel Co., Ltd. Overseas investments include an indirect investment in Dynasty Hotel of Hawaii in the USA and investment in Japan's Dynasty Holidays.
Investment and Leasing Business Group	Established CAL-Dynasty International that makes indirect investments in Chinese and American companies engaged in real estate investments and leasing management. CAL-Asia Investment Inc. and Taiwan Airport Service (Samoa) Co., Ltd. are engaged in general investment holdings. Freighter Prince and Freighter Princess are special purpose entities set up to meet financial structuring needs.

D. Directors, Supervisors and Presidents of Affiliated Companies

Dec 31, 2016
Units: Shares; %

Company	Title	Name	Shareholding	
			Shares	%
1. CAL-Dynasty International, Inc.	Chairman	Ho, Nuan-Hsuan (Note 1)	2,614,500 (USD10, share)	100
	Director	Hsieh, Su-Chien (Note 1)		
	Director (President)	Lee, Hsien-Kuang (Note 1)		
1A Dynasty Properties Co., Ltd.	Chairman (President)	Lee, Hsien-Kuang (Note 2)	5,000 (USD100, share)	100
	Director	Hsieh, Su-Chien; Chen, I-Chieh (Note 2)		
1B Dynasty Hotel of Hawaii, Inc.	Chairman	Lee, Hsien-Kuang (Note 2)	400,000 (USD10, share)	100
	Director	Chen, I-Chieh (Note 2)		
	Director (President)	Wang, Chih-Hsien (Note 1)		
2. CAL-Asia Investment Inc.	Chairman	Ho, Nuan-Hsuan (Note 1)	7,172,346 (USD1, share)	100
	Director	Hsieh, Su-Chien (Note 1)		
	Director (President)	Lo, Ya-Mei (Note 1)		
3. Hwa Hsia Company Ltd.	Chairman	Chao, Lin (Note 1)	77,270	100
	Director	Liu, Der-Chuan; Wang, Houng; Ku, Yueh-Han (Note 1)		
	Supervisor	Chung, Wan-Chun (Note 1)		
	Director (President)	Chang, Hsu-Yu (Note 1)		
4. Freighter Prince	Director	Chang, Chiung-Tsang; Han, Liang-Chong (Note 1)	1,000 (USD1, share)	100
5. Freighter Princess	Director	Chang, Chiung-Tsang; Han, Liang-Chong (Note 1)	1,000 (USD1, share)	100
6. Yestrip Co., Ltd.	Chairman	Hsieh, Hsin-Ni (Note 1)	1,600,000	100
	Director	Tong, Huai-Ming; Wang, Chen-Min (Note 1)		
	Supervisor	Chung, Wan-Chun (Note 1)		
	President	Liou, Yea-Ling (Nominated By China Airlines)		
7. CAL Park Co., Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	150,000,000	100
	Director	Hsieh, Su-Chien; Ku, Yueh-Han (Note 1)		
	Supervisor	Chung, Chuar-Duan (Note 1)		
	Director (President)	Hsieh, Su-Chien (Note 1)		
8. CAL Hotel Co., Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	46,500,000	100
	Director	Hsieh, Su-Chien; Kao, Shing-Hwang; Chang, Chih-Chieh; Lo, Ya-Mei (Note 1)		
	Supervisor	Chung, Chuar-Duan; Chen, I-Chieh (Note 1)		
9. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Chairman	Huang, Chwen-Jiun (Note 1)	16,000,000	100
	Director	Chang, Young; Wang, Houng; Sun, Jia-Min; Lee, Jung-Hui (Note 1)		
	Supervisor	Chung, Chuar-Duan; Chen, I-Chieh (Note 1)		
	President	Lee, Jung-Hui (Nominated By China Airlines)		
10. Mandarin Airlines, Ltd.	Chairman	Hsieh, Su-Chien (Note 1)	188,154,025	93.99
	Director	Chang, Young; Kao, Shing-Hwang; Han, Liang-Chong; Huang, Chwen-Jiun; Chang, Chih-Chieh; Lo, Ya-Mei (Note 1)		
	Supervisor	Chung, Wan-Chun		
	Director (President)	Han, Liang-Chong (Note 1)		
11. Sabre Travel Network (Taiwan) Ltd.	Chairman (President)	Ho, Hann-Yeh (Note 1)	13,021,042	93.93
	Director	Lu, Shih-Ming; Tong, Huai-Ming; Wang, Chen-Min (Note 1)	609,000	4.39
	Director	Belle Hans (Represent Sabre Travel Network Asia Pacific)		
	Supervisor	Chung, Chuar-Duan		
12. Tiger Taiwan Co., Ltd	Chairman	Chang, Horng-Jong (Note 1)	160,000,000	80
	Director	Chang, Young; Chang, Ming-Way; Tsao, Jyh-Fen (Note 1)		
	Director	Ho Yuen Sang (Represent Roar Aviation III)		
	Supervisor	Han, Liang-Chong (Represent Mandarin Airlines)		
	Supervisor	Lee Lik Hsin		
	President	Chang, Horng-Jong		

Company	Title	Name	Shareholding	
			Shares	%
13. China Pacific Laundry Services Ltd.	Chairman	Liu, Shyh-Hwa (Note 1)	13,750,000	55
	Director	Wei, Yih-Jiun; Liu, Tsao-Yang (Note 1)		
	Director	Shiu, Sai Cheung (Represent Hendriz Holding)	3,750,000	15
	Director	Lee Peter (Represent Heathlee Int'l)	3,750,000	15
	Supervisor	Yin, Mei Fong (Represent Merton Lake)	3,750,000	15
	Supervisor	Chung, Wan-Chun		
	President	Shih, Hui-Huang (Nominated By China Airlines)		
14. Taiwan Air Cargo Terminal Ltd	Chairman	Hsieh, Su-Chien (Note 1)	135,000,000	54
	Deputy Chairman	Charles C. Y. Chen (Represent Eyon Industrial Co.)	6,000,000	2.4
	Director	Chang, Chih-Chieh; Liu, Der-Chuan; Chen, I-Chieh (Note 1)		
	Director	UPS	20,000,000	8
	Director	Michael Shea (Represent Hsin Feng Corp.)	7,000,000	2.8
	Supervisor	Chang, Young (Represent Taiwan Airport Service Co.)	6,250,000	2.5
	Supervisor	Chen, Jyi-Fu (Represent Express Container Terminal Corp.)	15,000,000	6
	President	Chang, Cheng-Hao (Nominated By China Airlines)		
15. Dynasty Holidays, Inc.	Chairman (President)	Shih, Ping-Huang (Note 1)	408	51
	Director	Wang, Chen-Min; Tsao, Jyh-Fen (Note 1)		
	Director	Koizumi Kazuhisa; Yamada Keisuke (Represent Koizumi Group)	392	49
	Supervisor	Chen, I-Chieh (Note 1)		
	Supervisor	Ishihara Tetsu (Represent Koizumi Group)		
16. China Pacific Catering Services Ltd.	Chairman	Lai, Se-Jhen (Note 1)	43,911,000	51
	Director	Wei, Yih-Jiun; Liu, Shyh-Hwa (Note 1)		
	Director	Yin, Mei Fong; Loo, Kar Pui (Represent Aldeburgh Limited)	21,045,500	24.5
	Supervisor	Chung, Chuar-Duan		
	Supervisor	Yeung, Wai Tim (Represent Deli Holdings Limited)	21,045,500	24.5
	President	Cheng, Tien-Yuan (Nominated By China Airlines)		
17. Taoyuan International Airport Services Co., Ltd.	Chairman	Lin, Hsin-Te (Represent Motc)	31,500,000	45
	Director (President)	Huang, Chin-Feng (Note 1)	34,300,000	49
	Director	Hsieh, Su-Chien; Chang, Young; Lo, Ya-Mei; Chen, I-Ko (Note 1)		
	Director	Chen, Yen-Po; Chang, Chang-Chi; Li, Hung-Sheng; Liu, Chin-Tang (Represent Motc)		
	Director	Pi, Chung-Wei (Represent Ups)	4,200,000	6
	Supervisor	Li, Mi; Li, Shen-Yi		
18. Taiwan Airport Service Co., Ltd.	Chairman (President)	Chang, Young (Note 1)	20,626,644	47.35
	Director	Chen, I-Chieh (Note 1)		
	Director	Chung, Ting-Chun	9,405,300	21.59
	Director	Chang, Chieh-Tang (Represent Goldsun Building Materials)	7,405,200	17
	Supervisor	Chung, Chuar-Duan		
	Supervisor	Chen, Yao-Ming		
18A Taiwan Airport Service (Samoa) Co., Ltd.	Authorized Signatory	Chang, Young (Represent Taiwan Airport Service Co.)	5,876,976 (USD1, share)	100
19. Global Sky Express Ltd.	Chairman	Li, Chung-Hui	50,000	5
	Director	Liu, Der-Chuan; Tsao, See-Dee; Lin, Ming-Hsiu (Note 1)	250,000	25
	Director	Pao, Hsueh-Chao	40,000	4
	Director	Huang, Nan-Sheng	50,000	5
	Director	Wei, Ching-Li	20,000	2
	Director	Hsiao, Yu-Hsin	20,000	2
	Director	Chung, Mei-Chih (Represent Leader Mutual Freight System)	20,000	2
	Supervisor	Huang, Tze-Chi		
	Supervisor	Yeh, Chien-Tien	10,000	1
	Supervisor	Chu, Ssu-Ching (Represent Morrison Express)	50,000	5
	President	Hsu, Chih-Chiang (Nominated By China Airlines)		

Note 1: Representative of juridical person shareholder China Airlines.

Note 2: Representative of juridical person shareholder Hua Mei Investment Company.

E. Affiliated Company Business Overview

Dec 31, 2016

Unit: NT\$ thousands; EPS=NT\$

Company	Capital	Total Assets	Total Liabilities	Total Equity	Operating Revenue	Operating Income(Loss)	Profit(Loss)	EPS (Dollars)
1. CAL-Dynasty International, Inc.	843,387	792,519	1,335	791,184	11,500	2,903	29,135	11.14
1A Dynasty Properties Co., Ltd.	16,129	760,627	274,008	486,619	95,654	25,305	10,214	2042.80
1B Dynasty Hotel of Hawaii, Inc.	129,032	545,364	133,678	411,686	250,035	25,176	13,246	33.12
2. CAL-Asia Investment Inc.	231,366	450,305	0	450,305	0	(794)	(47,074)	(6.56)
3. Hwa Hsia Company Ltd.	77,270	234,674	155,568	79,106	368,275	18,703	19,412	251.22
4. Freighter Prince Ltd.	33	33	0	33	0	0	0	0
5. Freighter Princess Ltd.	33	33	0	33	0	0	0	0
6. Yestrip Co., Ltd.	16,000	65,270	39,806	25,464	40,673	(655)	304	0.19
7. CAL Park Co., Ltd.	1,500,000	4,352,985	2,823,611	1,529,374	299,465	60,253	18,551	0.12
8. CAL Hotel Co., Ltd.	465,000	466,779	79,404	387,375	592,775	71,175	73,500	1.58
9. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	160,000	133,952	23,824	110,128	0	(31,640)	(31,603)	(1.98)
10. Mandarin Airlines, Ltd.	2,001,825	3,853,889	2,637,535	1,216,355	7,610,391	(65,246)	(227,787)	(1.14)
11. Sabre Travel Network (Taiwan) Ltd.	138,618	604,789	137,951	466,839	384,184	220,871	186,479	13.45
12. Tiger Taiwan Co., Ltd.	2,000,000	3,329,598	2,876,022	453,576	4,335,835	(795,844)	(778,025)	(3.89)
13. China Pacific Laundry Services Ltd.	250,000	369,556	65,833	303,724	216,717	47,473	39,324	1.57
14. Taiwan Air Cargo Terminal Ltd.	2,500,000	3,834,500	1,497,660	2,336,840	1,535,684	80,766	25,537	0.10
15. Dynasty Holidays, Inc.	11,080	155,476	94,767	60,709	738,362	8,970	5,139	6423.75
16. China Pacific Catering Services Ltd.	861,000	2,517,839	1,274,692	1,243,147	2,614,493	468,954	407,920	4.62
17. Taoyuan International Airport Services Co., Ltd.	700,000	2,636,534	1,311,659	1,324,875	3,104,140	318,699	277,247	3.96
18. Taiwan Airport Service Co., Ltd.	435,600	1,059,668	571,143	488,524	997,733	137,269	116,081	2.66
18A Taiwan Airport Service (Samoa) Co., Ltd.	222,728	349,211	0	349,211	0	(1)	19,581	3.33
19. Global Sky Express Ltd.	10,000	40,191	10,520	29,671	112,506	8,220	6,783	6.78

Note 1: Capital, total assets, total liabilities, total equity were calculating using the exchange rate at the end of 2016.

Note 2: Operating revenue, operating profit, income for the period were calculated using the 2016 average exchange rates.

Note 3: Exchange rates at the end of 2016 were 1TWD=0.0310USD, 3.6101JPY, 0.2154CNY.

Note 4: Average exchange rates in 2016 were 1TWD=0.0310USD, 3.3836JPY, 0.2051CNY.

- (2) Affiliated Company Consolidated Financial Statements: Information required to be disclosed regarding affiliated company consolidated financial statements is included in Appendix 1 Consolidated Financial Statements. The Company will no longer prepare a separate consolidated financial statement for affiliated companies
- (3) Relationship Report: China Airlines is not the subsidiary of any company, so a relationship report is not required.

8.2 Private Placement Securities in the Most Recent Years: None.

8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years:

APR 24, 2017

Units: NT\$; shares; %

Company	Capital	Source of Funds	% Stake in Subsidiary	Date of Acquisition or Disposal	Number of Shares and Value of Stocks Acquired	Number of Shares and Value of Stocks Disposed of	Investment Gain/Loss	Number of Shares and Value of Stock Held as of the Printing Date of this Report	Amount of Company Endorsement /Guarantee of Subsidiary
Hwa Hsia Company Ltd.	77,270,000	Equity Fund	100%	-	-	-	-	814,152 shares 8,793,000	-
Mandarin Airlines, Ltd.	2,001,825,000	Equity Fund	93.99%	-	-	-	-	2,074,628 shares 22,406,000	-

Note: No subsidiary has a Company stock pledge nor has the Company lent money to any subsidiary.

8.4 Special Notes: None.

8.5 Situations with Major Impacts on Shareholder Equity or Share Prices:

Change in the chairman of the board, general manager, or one-third or more of the directors of the Company.

The Company's juridical person director China Aviation Development Foundation assigned Mr. Ho, Nuan-Hsuan to serve as its representative on the 20th Board on June 24, 2016. On the same day, the Board approved the appointment of Mr. Ho, Nuan-Hsuan to serve as Chairman. On July 6, 2016, Mr. Hsieh, Su-Chien was assigned to serve as representative on the 20th Board. On July 26, 2016, Mr. Cheng, Chuan-Yi and Chen, Han-Ming were assigned to serve as representatives on the 20th Board. On August 9, 2016, Mr. Jong, Jia-shi was assigned to serve as representative on the 20th Board.

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

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

Very truly yours,

CHINA AIRLINES, LTD.

By

March 30, 2017

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Deferred Income Tax Assets

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

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

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

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

Non-current Assets Held for Sale

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

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

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

1. Conducting an assessment on the transaction value based on industry-recognized publications, historical selling prices of similar aircraft models, and the suggested price proposed by a broker and observing the subsequent transactions.
2. Discussing the retirement schedule with the accountable department, and reviewing whether the correspondences and the latest quote were consistent with the market value claimed by management.

Acquisition Costs of a New Fleet

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

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

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

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

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chen-Hsin Yang and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 30, 2017

Notice to Readers

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

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

CHINA AIRLINES, L.T.D. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

ASSETS	2016	2015
	Amount	Amount
CURRENT ASSETS		
Cash and cash equivalents (Notes 4, 6, 19 and 32)	\$ 24,267,197	\$ 23,491,085
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	416,641	542,326
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)	58,449	52,582
Receivables		
Trade receivables (Notes 4, 5, 11 and 32)	8,533,785	7,610,677
Notes and accounts - related parties (Notes 32 and 33)	3,562	3,874
Other receivables (Notes 4 and 32)	952,320	1,032,622
Current tax assets (Notes 4 and 29)	28,259	9,849
Inventories, net (Notes 4 and 12)	8,434,386	8,300,398
Noncurrent assets held for sale (Notes 4, 5 and 13)	185,100	670,455
Other assets - current (Notes 6 and 19)	4,658,502	3,928,747
Total current assets	47,338,201	45,642,615
NONCURRENT ASSETS		
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	-	1,710
Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 32)	3,268	19,080
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 32)	-	11,216
Financial assets carried at cost - noncurrent, net of current portion (Notes 10 and 32)	40,357	2,477,771
Property, plant and equipment (Notes 4, 5, 16 and 34)	2,867,771	2,477,771
Investment properties (Notes 4 and 17)	140,136,537	129,638,866
Other intangible assets (Notes 4 and 18)	2,075,903	2,076,182
Other noncurrent assets (Notes 4, 5 and 29)	1,137,115	1,009,678
Deferred income tax asset (Notes 4, 5 and 29)	6,256,665	7,188,415
Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)	24,546,082	33,246,859
Total noncurrent assets	177,162,558	176,283,694
TOTAL	\$ 224,500,759	\$ 221,926,309
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable (Notes 4, 5 and 20)	\$ 135,000	\$ 173,289
Short-term bills payable (Note 20)	900,000	9,995
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)	20,854	313,689
Notes and accounts payable (Note 32)	869,712	1,229,575
Notes and accounts payable - related parties (Notes 32 and 33)	555,829	493,754
Other payables (Notes 23 and 28)	11,465,254	12,296,548
Current tax liabilities (Notes 4 and 29)	48,687	75,645
Provisions - current (Notes 4, 5 and 25)	1,875,356	1,875,356
Other current liabilities (Notes 4, 5 and 24)	14,820,860	13,112,086
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32)	2,700,000	4,944,106
Loans and debts - current portion (Notes 20, 32 and 34)	32,268,540	30,092,112
Capital lease obligations - current portion (Notes 4, 22, 32 and 34)	1,284,001	1,457,957
Other current liabilities (Note 32)	3,455,062	4,001,510
Total current liabilities	68,605,724	68,220,452
NONCURRENT LIABILITIES		
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)	2,775	11,291
Bonds payable - noncurrent (Notes 4, 21, 27 and 32)	19,538,644	10,900,000
Loans and debts - noncurrent (Notes 20, 32 and 34)	56,962,187	57,691,505
Provisions - noncurrent (Notes 4, 5 and 25)	7,408,229	6,167,295
Deferred tax liabilities (Notes 4 and 29)	273,610	440,681
Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)	4,630,444	4,630,444
Accrued pension costs (Notes 4, 5 and 26)	1,808,403	1,463,929
Other noncurrent liabilities (Note 32)	7,958,835	10,533,574
Total noncurrent liabilities	431,959	423,892
Total liabilities	98,027,883	93,149,314
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)		
Share capital	166,653,561	161,589,766
Capital surplus	54,708,901	54,708,901
Retained earnings	799,932	798,415
Legal reserve	287,224	-
Special reserve	76,486	-
Unappropriated retained earnings (accumulated deficit)	(67,603)	2,172,232
Total retained earnings	112,264	166,283
Other equity attributable to owners of the company	(43,372)	(43,372)
Total equity attributable to owners of the company	55,783,817	58,269,896
NON-CONTROLLING INTERESTS (Note 27)		
Total equity	57,867,198	60,556,543
TOTAL	\$ 224,500,759	\$ 221,926,309

CHINA AIRLINES, L.T.D. AND SUBSIDIARIES

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

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

(Continued)

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

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

	Equity Attributable to Owners of the Company											
	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	Total		
BALANCE AT JANUARY 1, 2015	\$ 52,491,666	\$ 1,992,415	\$ -	\$ -	\$ (3,870,736)	\$ 99,852	\$ 4,015	\$ (2,009,565)	\$ (43,372)	\$ 48,664,275	\$ 2,321,737	\$ 50,986,012
Compensation of deficit - capital surplus	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-	-	-
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	64	-	-	-	-	-	-	-	64	-	64
Convertible bonds converted to common shares	2,217,235	317,889	-	-	-	-	-	-	-	2,535,124	-	2,535,124
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(1,609)	-	-	-	-	(1,609)	(1,965)	(3,574)
Net income for the year ended December 31, 2015	-	-	-	-	5,763,714	-	-	-	-	5,763,714	162,496	5,926,210
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(531,087)	58,107	(2,260)	1,783,568	-	1,308,328	(38,568)	1,269,760
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	1,783,568	-	7,072,042	123,928	7,195,970
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(157,053)	(157,053)
BALANCE AT DECEMBER 31, 2015	54,708,901	798,415	-	-	2,872,235	157,959	1,755	(225,997)	(43,372)	58,269,896	2,286,647	60,556,543
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)	(4,548)	(8,084)
Appropriation of 2015 the earning	-	-	287,224	-	(287,224)	-	-	-	-	-	-	-
Legal reserve	-	-	-	76,486	(76,486)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)	-	(2,508,525)
Cash dividends - \$0.458522382 per share	-	-	-	-	-	-	-	-	-	-	-	-
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540	139,400	710,940
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)	(136,232)	(681,669)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103	3,168	29,271
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(201,886)	(201,886)
BALANCE AT DECEMBER 31, 2016	\$ 54,708,901	\$ 799,922	\$ 287,224	\$ 76,486	\$ (157,618)	\$ 78,564	\$ 1,714	\$ 31,986	\$ (43,372)	\$ 55,783,817	\$ 2,083,381	\$ 57,867,198

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,879,851	\$ 7,134,885
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	17,545,523	17,261,774
Amortization expenses	147,486	70,040
Bad-debt expense	83,657	49,458
Net loss (gain) on fair value change of financial assets and liabilities held for trading	35,678	(150,871)
Interest income	(242,801)	(466,923)
Dividend income	(59,099)	(1,884,052)
Share of profit of associates and joint ventures	(536,986)	(516,140)
Loss on disposal of financial assets measured at cost	346	-
Gain on disposal of property, plant and equipment and noncurrent assets held for sale	(53,419)	(13,155)
Impairment loss recognized on available-for-sale financial assets	19,005	3,408
Impairment loss recognized on property, plant, equipment and noncurrent assets held for sale	1,065,626	2,468,372
Loss on inventories and property, plant and equipment	207,019	389,274
Impairment loss recognized on financial assets carried at cost	71,826	-
Net loss (gain) on foreign currency exchange	(3,855)	487,075
Finance costs	1,292,865	1,783,793
Recognition of provisions	2,613,011	2,079,169
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Loss on repurchase of bonds payable	41,943	-
Changes in operating assets and liabilities		
Decrease (increase) in financial assets held for trading	91,729	(157,350)
Decrease on derivative financial assets for hedging	13,096	-
Decrease (increase) in notes and accounts receivable	(731,012)	1,770,746
Increase in other receivables	(15,595)	(205,127)
Increase in inventories	(358,861)	(1,248,012)
Increase in other current assets	(293,137)	(1,252,816)
(Decrease) increase in notes and accounts payable	(514,807)	828,156
(Decrease) increase in other payables	(1,166,447)	569,765
Increase in deferred revenue	1,651,689	2,006,907
Decrease in provisions	(1,393,565)	(237,716)
Increase in other current liabilities	399,500	512,938
Decrease in accrued pension liabilities	(3,532,023)	(296,385)
Increase (decrease) in other liabilities	22,045	(14,555)
Cash generated from operations	18,265,776	30,958,146
Interest received	239,461	487,009
Dividends received	513,203	2,382,066
Interest paid	(1,195,427)	(1,797,212)
Income tax paid	(186,641)	(239,316)
Net cash generated from operating activities	<u>17,636,372</u>	<u>31,790,693</u>

Net cash generated from operating activities

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

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

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")

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

(Concluded)

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

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

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

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

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

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

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

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

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

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

The impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Hedge accounting

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

2) IFRS 16 "Leases"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

Current and Noncurrent Assets and Liabilities

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

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

Basis of Consolidation

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

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

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

Foreign Currencies

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

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

- a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

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

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

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

Cash Equivalents

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

Inventories

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

Noncurrent Assets Held for Sale

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

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

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

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

Property, Plant and Equipment

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

Freehold land is not depreciated.

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

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

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

Investment Properties

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

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

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

a) Financial assets at fair value through profit or loss

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

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

b) Available-for-sale financial assets

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

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

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

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

c) Loans and receivables

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

2) Impairment of financial assets

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

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

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

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

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

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

- a) Significant financial difficulty of the issuer or counterparty;
- b) Breach of contract, such as a default or delinquency in interest or principal payments;
- c) It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- d) The disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

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

c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

d. Convertible bonds

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

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

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

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

e. Derivative financial instruments

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

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

Hedge Accounting

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

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

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

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

Provisions

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

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

Aircraft lease contracts

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

Revenue Recognition

- a. Rendering of services
Passenger fares and cargo revenue are recognized when transport service is provided. The value of unused passenger tickets is recognized as "advance ticket - sales".
- b. Dividend and interest income
Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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

Leasing

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

a. Financial leases

The Group as lessee

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

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

b. Sales and leasebacks

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

1) Financial lease

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

2) Operating lease

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

c. Operating lease

1) The Group as lessor

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

2) The Group as lessee

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

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

Employee Benefits

- a. Short-term employee benefits
Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.
- b. Retirement benefits
Payments to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.
Defined benefit costs (including service cost, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service cost (including current service cost, past service cost, and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.
Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.
Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.
Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Program

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

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

Share-based Payment Arrangements

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

Taxation

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

a. Current tax

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

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

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the year

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

Fair Value of Derivatives and Other Financial Instruments

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

Depreciation of Property, Plant and Equipment - Flight Equipment

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

Defined Benefit Obligations

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

Maintenance Reserve for Operating Lease Aircraft

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

Frequent Flyer Program

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

Impairment of Flight Equipment

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

Impairment of Non-Current Assets Held For Sale

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

Maintenance and Overhaul Costs

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

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

Income Taxes

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

Estimated Impairment of Trade Receivables

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

6. CASH AND CASH EQUIVALENTS

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

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

	December 31	2015
Bank balance	0.05%-2%	0%-1.5%
Time deposits with original maturities of less than three months	0.13%-1.29%	0.27%-7.25%
Repurchase agreements collateralized by bonds	0.33%-1.40%	0.42%-0.51%

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

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

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

2016

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

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	2015
<u>Non-current</u>		
Domestic listed company		
Trans Asia Airways	<u>\$ -</u>	<u>\$ 19,080</u>

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

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

(Continued)

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

(Concluded)

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

Cash Flow Hedge

a. Interest rate swaps

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

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

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

b. Currency options

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

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

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

c. Fuel options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>			
Buy fuel call option	USD	2017.01.05-2018.02.08	NTD83

d. Foreign exchange forward

<u>December 31, 2015</u>			
Buy fuel call option	USD	2016.01.05-2016.12.07	NTD335
Sell fuel put option	USD	2016.01.05-2016.12.07	NTD299,618

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

d. Foreign exchange forward

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

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

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

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

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

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

10. FINANCIAL ASSETS CARRIED AT COST

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

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

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

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

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

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

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

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

12. INVENTORIES

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

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

13. NON-CURRENT ASSETS HELD FOR SALE

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

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

14. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

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

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

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

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

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

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

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

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

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

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

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

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

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

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

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

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

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

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

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31 2016	December 31 2015
China Pacific Catering Services	\$ 638,980	\$ 705,134
China Pacific Laundry Services	<u>167,048</u>	<u>161,869</u>
	<u>\$ 806,028</u>	<u>\$ 867,003</u>

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

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

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

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

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

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

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

(Continued)

	December 31	
	2016	2015
Leasehold improvements	\$ 3,958,811	\$ 3,928,846
Construction in progress	499,547	134,888
	<u>\$ 3,07,212,927</u>	<u>\$ 287,220,914</u>
Accumulated depreciation and impairment loss		
Buildings	\$ 5,781,555	\$ 5,355,804
Flight equipment	135,893,108	128,953,990
Equipment under finance leases	15,846,688	14,201,904
Machinery equipment	6,964,422	6,598,390
Office equipment	894,997	839,931
Leased assets	101,882	113,276
Leasehold improvements	<u>1,593,538</u>	<u>1,528,753</u>
Net value	<u>\$ 1,67,076,190</u>	<u>\$ 157,592,048</u>
	<u>\$ 140,136,737</u>	<u>\$ 129,628,866</u>
		(Concluded)

	December 31	2015	2016	2015	2016	2015	2016	2015	2016			
	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Balance at January 1, 2015	\$ 953,614	\$ 13,085,921	\$ 232,055,450	\$ 33,985,116	\$ 14,697,246	\$ 294,757,347	\$ 953,614	\$ 13,085,921	\$ 232,055,450	\$ 33,985,116	\$ 14,697,246	\$ 294,757,347
Additions	-	45,404	5,640,527	394,939	630,493	6,711,363	-	45,404	5,640,527	394,939	630,493	6,711,363
Disposals	-	(31,102)	(3,085,768)	(550,429)	(330,385)	(3,997,684)	-	(31,102)	(3,085,768)	(550,429)	(330,385)	(3,997,684)
Reclassification	-	590	(4,741,174)	(5,742,222)	165,938	(10,316,868)	-	590	(4,741,174)	(5,742,222)	165,938	(10,316,868)
Net exchange difference	22,813	39,545	-	-	4,598	66,756	-	-	-	-	4,598	66,756
Balance at December 31, 2015	<u>\$ 976,427</u>	<u>\$ 13,140,158</u>	<u>\$ 229,849,035</u>	<u>\$ 28,087,404</u>	<u>\$ 15,167,890</u>	<u>\$ 287,220,914</u>	<u>\$ 976,427</u>	<u>\$ 13,140,158</u>	<u>\$ 229,849,035</u>	<u>\$ 28,087,404</u>	<u>\$ 15,167,890</u>	<u>\$ 287,220,914</u>
Accumulated depreciation and impairment												
Balance at January 1, 2015	\$ -	\$ (4,794,850)	\$ (121,645,204)	\$ (16,998,403)	\$ (8,663,824)	\$ (152,102,281)	\$ -	\$ (4,794,850)	\$ (121,645,204)	\$ (16,998,403)	\$ (8,663,824)	\$ (152,102,281)
Depreciation expense	-	(562,749)	(13,852,657)	(2,104,460)	(741,629)	(17,261,495)	-	(562,749)	(13,852,657)	(2,104,460)	(741,629)	(17,261,495)
Disposals	-	18,015	2,878,909	550,450	325,893	3,773,247	-	18,015	2,878,909	550,450	325,893	3,773,247
Impairment loss	-	-	(569,000)	-	-	(569,000)	-	-	(569,000)	-	-	(569,000)
Reclassification	-	(55)	4,233,962	4,350,529	2,250	8,586,686	-	(55)	4,233,962	4,350,529	2,250	8,586,686
Net exchange difference	-	(16,165)	-	-	(3,040)	(19,205)	-	(16,165)	-	-	(3,040)	(19,205)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ (5,355,804)</u>	<u>\$ (128,953,990)</u>	<u>\$ (14,201,904)</u>	<u>\$ (9,080,350)</u>	<u>\$ (157,592,048)</u>	<u>\$ -</u>	<u>\$ (5,355,804)</u>	<u>\$ (128,953,990)</u>	<u>\$ (14,201,904)</u>	<u>\$ (9,080,350)</u>	<u>\$ (157,592,048)</u>

	December 31	2015	2016	2015	2016	2015	2016	2015	2016			
	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Balance at January 1, 2015	\$ 976,427	\$ 13,140,158	\$ 229,849,035	\$ 28,087,404	\$ 15,167,890	\$ 287,220,914	\$ 976,427	\$ 13,140,158	\$ 229,849,035	\$ 28,087,404	\$ 15,167,890	\$ 287,220,914
Additions	-	93,660	7,964,882	1,017,510	858,094	9,934,146	-	93,660	7,964,882	1,017,510	858,094	9,934,146
Disposals	-	(110,227)	(6,539,141)	(410,271)	(293,592)	(7,153,231)	-	(110,227)	(6,539,141)	(410,271)	(293,592)	(7,153,231)
Reclassification	-	406	16,787,303	204,248	252,436	17,244,393	-	406	16,787,303	204,248	252,436	17,244,393
Net exchange difference	(11,253)	(19,014)	-	-	(3,028)	(33,295)	(11,253)	(19,014)	-	-	(3,028)	(33,295)
Balance at December 31, 2016	<u>\$ 965,174</u>	<u>\$ 13,104,983</u>	<u>\$ 248,562,079</u>	<u>\$ 28,898,891</u>	<u>\$ 15,981,800</u>	<u>\$ 307,212,927</u>	<u>\$ 965,174</u>	<u>\$ 13,104,983</u>	<u>\$ 248,562,079</u>	<u>\$ 28,898,891</u>	<u>\$ 15,981,800</u>	<u>\$ 307,212,927</u>

(Continued)

	December 31	2015	2016	2015	2016	2015	2016	2015	2016			
	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Balance at January 1, 2016	\$ -	\$ (5,355,804)	\$ (128,953,990)	\$ (14,201,904)	\$ (9,080,350)	\$ (157,592,048)	\$ -	\$ (5,355,804)	\$ (128,953,990)	\$ (14,201,904)	\$ (9,080,350)	\$ (157,592,048)
Depreciation expense	-	(508,403)	(14,209,081)	(2,061,900)	(765,860)	(17,545,244)	-	(508,403)	(14,209,081)	(2,061,900)	(765,860)	(17,545,244)
Disposals	-	74,349	5,612,149	410,271	288,884	6,385,653	-	74,349	5,612,149	410,271	288,884	6,385,653
Impairment loss	-	-	(717,758)	-	-	(717,758)	-	-	(717,758)	-	-	(717,758)
Reclassification	-	-	2,375,572	6,690	631	2,382,893	-	-	2,375,572	6,690	631	2,382,893
Net exchange difference	-	8,303	-	155	-	8,303	-	8,303	-	155	-	8,303
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ (5,781,555)</u>	<u>\$ (135,893,108)</u>	<u>\$ (15,846,688)</u>	<u>\$ (9,554,839)</u>	<u>\$ (167,076,190)</u>	<u>\$ -</u>	<u>\$ (5,781,555)</u>	<u>\$ (135,893,108)</u>	<u>\$ (15,846,688)</u>	<u>\$ (9,554,839)</u>	<u>\$ (167,076,190)</u>

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

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

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

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

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

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

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

17. INVESTMENT PROPERTIES

	December 31 2016	December 31 2015
Carrying amount		
Investment properties	<u>\$ 2,075,903</u>	<u>\$ 2,076,182</u>

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

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

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

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

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

18. OTHER INTANGIBLE ASSETS

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

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

19. OTHER ASSETS

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

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

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

20. BORROWINGS

a. Short-term loans

	<u>December 31</u>	<u>2015</u>
Bank loans - unsecured	\$ <u>135,000</u>	\$ <u>173,289</u>
Interest rates	1.51%-2%	1.25%-1.8636%

b. Short-term and bills payable

	<u>December 31</u>	<u>2015</u>
Commercial paper	\$ 900,000	\$ 10,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>5</u>
Annual discount rate	0.758%	1.3%

c. Long-term debts

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

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

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

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

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

21. BONDS PAYABLE

	<u>December 31</u>	<u>2015</u>
Secured corporate bonds first-time issued in 2011	\$ -	\$ 2,400,000
Unsecured corporate bonds first-time issued in 2013	10,900,000	10,900,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	-
Unsecured corporate bonds second-time issued in 2016	5,000,000	-
Convertible bonds - fifth time	<u>1,638,044</u>	<u>2,544,106</u>
	22,238,044	15,844,106
	<u>2,700,000</u>	<u>4,944,106</u>
	<u>\$ 19,538,044</u>	<u>\$ 10,900,000</u>

Less: Current portion and put option of convertible bonds

Related issuance conditions were as follows:

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

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

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

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

- The holders may demand a lump-sum payment for the bonds upon maturity.
- The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" in December 2015. The Company paid \$994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy back of \$41,943 thousand, for which the Company reclassified the remaining face value to non-current asset.
- The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.

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

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

Proceeds from issuance
Equity component

\$ 6,000,000
(518,621)

Liability component at the date of issuance

\$ 5,481,379

22. LEASING

- Sale-leasebacks - finance leases

	December 31	2015
	2016	

Minimum lease payments - flight equipment

Within one year	\$ 1,254,000	\$ 1,428,467
Later than one year and no later than five years	<u>3,562,000</u>	<u>5,079,133</u>
Present value of minimum lease payments	<u>\$ 4,816,000</u>	<u>\$ 6,507,600</u>
Interest rates	1.0323% - 1.0980%	1.1828% - 1.5667%

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

b. Finance leases

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

	<u>December 31</u>	<u>2015</u>
	<u>2016</u>	
<u>Minimum lease payments - cargo terminal and other</u>		
Within one year	\$ 30,131	\$ 37,697
Beyond one year and within five years	<u>85,244</u>	<u>117,433</u>
	115,375	155,130
Less: Financial cost	<u>(2,070)</u>	<u>(7,626)</u>
Present value of minimum lease payments	<u>\$ 113,305</u>	<u>\$ 147,504</u>

Present value of minimum lease payments - cargo terminal and other

Within one year	\$ 30,001	\$ 29,490
Beyond one year and within five years	<u>83,304</u>	<u>118,014</u>
	<u>\$ 113,305</u>	<u>\$ 147,504</u>
Discount rate	4.756%	4.96%
Total amount of present value of minimum lease payments		
Current	\$ 1,284,001	\$ 1,457,957
Noncurrent	<u>3,645,304</u>	<u>5,197,147</u>
	<u>\$ 4,929,305</u>	<u>\$ 6,655,104</u>

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

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

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

As of December 31, 2016 and 2015, the refundable deposits paid by the Group under operating lease contracts were \$982,988 thousand and \$952,520 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31 2016 and 2015 were \$1,459,955 thousand and \$1,304,259 thousand.

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

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

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

	<u>December 31</u>	<u>2015</u>
	<u>2016</u>	
<u>For the Year Ended December 31</u>		
Minimum lease payments	<u>\$ 10,723,726</u>	<u>\$ 7,896,856</u>

23. OTHER PAYABLES

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

24. DEFERRED REVENUE

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

25. PROVISIONS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Operating lease-aircraft	<u>\$ 7,490,154</u>	<u>\$ 6,187,481</u>
Current	<u>\$ 81,925</u>	<u>\$ 20,186</u>
Non-current	<u>7,408,229</u>	<u>6,167,295</u>
	<u>\$ 7,490,154</u>	<u>\$ 6,187,481</u>
Aircraft Lease Contract		
Balance at January 1, 2015		\$ 4,303,780
Additional provisions recognized		2,079,169
Usage		(237,716)
Effect of exchange rate changes		<u>42,248</u>
Balance at December 31, 2015		<u>\$ 6,187,481</u>
Balance at January 1, 2016		\$ 6,187,481
Additional provisions recognized		2,613,011
Usage		(1,393,565)
Effect of exchange rate changes		<u>83,227</u>
Balance at December 31, 2016		<u>\$ 7,490,154</u>

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

26. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

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

b. Defined benefit plans

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

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

	<u>December 31</u>	<u>December 31</u>
	<u>2016</u>	<u>2015</u>
Present value of funded defined benefit obligation	\$ 15,119,110	\$ 14,436,208
Fair value of plan assets	<u>(7,162,275)</u>	<u>(3,882,634)</u>
Deficit (net defined benefit liability)	<u>\$ 7,956,835</u>	<u>\$ 10,553,574</u>
Movements in net defined benefit liability (asset) were as follows:		
	Present Value of the Defined Benefit Obligation	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	\$ 14,073,849	\$ 10,192,908
Service cost		
Current service cost	400,144	400,144
Net interest expense (income)	<u>243,257</u>	<u>175,510</u>
Recognized in profit or loss	<u>643,401</u>	<u>575,654</u>
Remeasurement		
Return on plan assets (excluding amounts included in net interest)	-	(40,100)
Actuarial (gain) loss - changes in demographic assumptions	15,335	15,335
Actuarial (gain) loss - changes in financial assumptions	189,433	189,433
Actuarial (gain) loss - experience adjustments	<u>512,165</u>	<u>512,165</u>
Recognized in other comprehensive income	<u>716,933</u>	<u>676,833</u>
Contributions from the employer	-	(768,025)
Benefits paid	(874,179)	-
Others	<u>(123,296)</u>	<u>(123,296)</u>
Balance at December 31, 2015	<u>14,436,208</u>	<u>10,553,574</u>

(Continued)

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

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

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

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

27. EQUITY

a. Share capital

Common shares

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

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

b. Capital surplus

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

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

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

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

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

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

c. Appropriation of earnings and dividend policy

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

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

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

1) Appropriation of earnings in 2014

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

2) Appropriation of earnings in 2015

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

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

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

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

d. Others equity items

The movement of other equity items is as follows:

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

e. Non-controlling interest

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

f. Treasury shares

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

	(Shares in Thousands)		
	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
Purpose of Treasury Shares			
Year ended December 31, 2016	<u>2,889</u>	-	<u>2,889</u>
Company's shares held by its subsidiaries reclassified from investments in shares to treasury shares			
Year ended December 31, 2015	<u>2,889</u>	-	<u>2,889</u>
Company's shares held by its subsidiaries reclassified from investments in shares to treasury shares			
Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2016</u>			
Mandarin Airlines	2,075	\$ 19,294	\$ 19,294
Hwa Hsia	814	<u>7,572</u>	<u>7,572</u>
		<u>\$ 26,866</u>	<u>\$ 26,866</u>
<u>December 31, 2015</u>			
Mandarin Airlines	2,075	\$ 24,895	\$ 24,895
Hwa Hsia	814	<u>9,770</u>	<u>9,770</u>
		<u>\$ 34,665</u>	<u>\$ 34,665</u>

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

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

28. NET INCOME

a. Revenue	<u>\$ 95,282,373</u>	<u>\$ 94,962,055</u>
Passenger	35,721,425	40,292,840
Cargo	10,075,309	9,801,322
Others	<u>\$ 141,079,107</u>	<u>\$ 145,056,217</u>
b. Other income		
Interest income	\$ 242,801	\$ 466,923
Subsidy income	168,377	184,512
Dividend income	59,099	1,884,052
Others	<u>288,862</u>	<u>695,692</u>
	<u>\$ 759,139</u>	<u>\$ 3,231,179</u>

c. Other gains and losses

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

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

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

d. Finance costs

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

Information of interest capitalization was as follows:

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

e. Depreciation and amortization expense

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

f. Employee benefits expense

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

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

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

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

29. INCOME TAX

a. Income tax expense recognized in profit or loss

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

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

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

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

b. Income tax recognized in other comprehensive income

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

c. Deferred tax assets and liabilities

For the year ended December 31, 2016

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

For the year ended December 31, 2015

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit plan	\$ 1,735,354	\$ (50,813)	\$ 105,270	\$ -	\$ 1,789,811
Frequent flyer program	432,196	20,753	-	-	452,949
Maintenance reserve	726,728	310,761	-	-	1,037,489
Allowance for reduction of inventory	150,185	24,465	-	-	174,650
Others	1,080,038	180,419	(365,243)	(386)	894,828
Loss carryforward	4,399,542	(1,560,854)	-	-	2,838,688
	<u>\$ 8,244,043</u>	<u>\$ (1,075,269)</u>	<u>\$ (259,973)</u>	<u>\$ (386)</u>	<u>\$ 7,188,415</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized foreign exchange gain	\$ 108,903	\$ (106,369)	\$ -	\$ -	\$ 2,534
Depreciation difference from fixed assets	126,488	(1,480)	-	-	125,008
Defined benefits plan	9,792	-	(9,792)	-	-
Others	178,406	20,968	9,038	4,727	213,139
	<u>\$ 423,589</u>	<u>\$ (86,881)</u>	<u>\$ (754)</u>	<u>\$ 4,727</u>	<u>\$ 340,681</u>

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

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

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

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

(Continued)

Expiry Year

	Expiry Year	Unused Amount
<u>Taiwan Air Cargo Terminal Limited</u>		
2021		\$ 34,923
2022		115,951
2023		102,248
2024		34,048
2025		33,775
2026		<u>41,495</u>
		<u>\$ 362,440</u>
<u>Taiwan Aircraft Maintenance And Engineering Co., Ltd.</u>		
2025		\$ 18,124
2026		<u>31,476</u>
		<u>\$ 49,600</u>
<u>Hwa Hsia</u>		
2026		<u>\$ 14,964</u>
		(Concluded)
	December 31	
	2016	2015
	<u>\$ 102,527</u>	<u>\$ 551,908</u>

e. Integrated income tax

Imputation credit accounts

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

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

f. Income tax assessment

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

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

32. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

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

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

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

2) Fair value measurements recognized in the balance sheets

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2016

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

30. EARNING PER SHARE

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

	For the Year Ended December 31	
	2016	2015
Basic earnings per share	\$ 0.10	\$ 1.06
Diluted earnings per share	\$ 0.10	\$ 1.00
Earnings used in the computation of basic earnings per share	\$ 571,540	\$ 5,763,714
Effect of potentially dilutive common shares:		
Interest on convertible bonds (after tax)	-	47.716
Earnings used in the computation of diluted earnings per share	\$ 571,540	\$ 5,811,430

For the Year Ended December 31

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

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

31. CAPITAL MANAGEMENT

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

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

December 31, 2015

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

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

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts and interest rate swaps	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement	The fair values of foreign exchanges and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of foreign exchanges and fuel options.
Because some financial instruments and non-financial instruments cannot show their fair value, the total fair value showed by these disclosure are not total value of the Group.	

Derivatives - foreign currency forward contracts and interest rate swaps

Discounted cash flow.

Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

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

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

b. Categories of financial instruments

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

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

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

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

c. Financial risk management objectives and policies

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

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

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

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

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

b) Interest rate risk

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

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

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

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

Sensitivity analysis

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

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

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

c) Other price risk

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

Sensitivity analysis

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

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

2) Credit risk

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

Operation - related credit risk

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

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

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

Financial credit risk

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

3) Liquidity risk

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

Liquidity and interest risk rate tables

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

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

December 31, 2016

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

December 31, 2015

The Weighted Average Effective Interest Rate (%)

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

Loan commitments

	December 31	2015
	2016	2015

Unused bank loan limit (unsecured) \$ 14,424,006 \$ 22,172,000

33. RELATED-PARTY TRANSACTIONS

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

a. Operating transactions

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

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

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

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

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

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

b. Lease of properties (operating leases)

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

c. Endorsements and guarantees

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

d. Compensation of key management personnel

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

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

34. PLEDGED ASSETS

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

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

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

35. COMMITMENTS AND CONTINGENT LIABILITIES

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

- a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate purchase prices of US\$3,933,235 thousand and US\$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of December 31, 2016, four of the aircrafts had been handed over to the Company, and the total list price of the remaining ten aircrafts was US\$2,839,377 thousand, which has been paid in the amount of US\$637,908 thousand (recognized as prepayments for aircrafts).
- b. For the future development of the Company's business, the Company entered into a lease contract with BOC Aviation with a letter to lease six 737-800 aircrafts. The expected delivery period would begin from September 2016. As of December 31, 2016, four of the aircrafts have been handed over to the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2016	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	\$	310,384	\$ 10,012,403
EUR		15,665	532,807
HKD		273,060	1,135,385
JPY		5,138,687	1,423,417
CNY		483,548	2,244,088
Financial liabilities			
Monetary items			
USD		259,145	8,359,536
EUR		6,512	221,486
HKD		94,831	394,306
JPY		4,442,045	1,230,446
CNY		137,773	639,614

December 31, 2015

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

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

37. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None
 - 2) Endorsement/guarantee provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None
 - 6) Disposal of individual real estates at costs or prices of at least NT\$100 million or 20% of the paid-in capital: None
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)

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

10) Derivative financial transactions (Notes 7 and 9)

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

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

38. SEGMENT INFORMATION

a. Segment information

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

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

For the Year Ended December 31, 2015

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

b. Geographical segment

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

	For the Year Ended December 31, 2016								
	America	North East Asia	South East Asia	Europe	Australia	China		Domestic	Adjustment and Eliminations
Operating revenue	\$ 408,654	\$ 27,074	\$ 30,000	\$ 11,700	\$ 5,000	\$ 20,250	\$ 13,300	\$ (6,850)	\$ 141,020
Operation profit and losses	\$ 1,300	\$ (23,500)	\$ (6,000)	\$ (9,400)	\$ 8,000	\$ 1,600	\$ 2,700	\$ —	\$ 4,200
Investment income accounted for by the equity method									\$ 4,500
Revenue									\$ 516,986
Expense									(53,102)
Profit before income tax									(2,206,221)
Identifiable assets accounted for by the equity method	\$ 1,400	\$ 17,200	\$ 98,200	\$ 5,100	\$ 3,000	\$ 13,200	\$ 1,600,000	\$ —	\$ 1,622,800
Assets									2,866,431
Total assets									\$ 29,421,688
									\$ 224,500,729

	For the Year Ended December 31, 2015							
	America	North East Asia	South East Asia	Europe	Australia	China		Domestic
Operating revenue	\$ 43,285,614	\$ 31,150,308	\$ 11,529,410	\$ 4,318,055	\$ 20,470,330	\$ 13,877,497	\$ (6,684,509)	\$ 148,056,217
Operation profit and losses	\$ 2,450,067	\$ (827,256)	\$ 68,964	\$ 229,823	\$ 2,141,333	\$ 2,734,416	\$ 21,290	\$ 8,129,197
Interest revenue								466,923
Investment income accounted for by the equity method								516,140
Revenue								3,038,744
Expense								(1,783,793)
Profit before income tax								(3,232,526)
Identifiable assets accounted for by the equity method	\$ 1,452,434	\$ 11,427	\$ 5,229	\$ 4,354	\$ 14,021	\$ 130,633,643	\$ (53)	\$ 132,274,046
Assets								2,877,777
Total assets								\$ 86,774,486
								\$ 221,926,309

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

**MARKETABLE SECURITIES HELD
DECEMBER 31, 2016**

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

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

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016**

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

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

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

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

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

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

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

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars/Renminbi/U.S. Dollars, Unless Stated Otherwise)

China Airlines

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

(Concluded)

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

(Continued)

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

(Continued)

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

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

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

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

(Concluded)

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.

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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, 2016, the Company recognized tax losses as deferred tax assets, in New Taiwan dollars (NT\$), in the amount of NT\$2,322,951 thousand. Refer to Notes 4, 5 and 27 in the accompanying financial statement for the related detailed information.

The 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.

Non-current 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 non-current assets held for sale. As of December 31, 2016, the carrying amount of the non-current assets held for sale was NT\$185,100 thousand. Refer to Notes 4, 5 and 12 in the accompanying financial statements for the related detailed information.

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

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

1. Conducting an assessment on the transaction value by obtaining reference prices from authoritative publications recognized within the aviation industry, historical selling prices of similar types of aircrafts, and the suggested price proposed by a broker and observing the subsequent transactions.
2. Discussing the status of the transaction with the department accountable for disposing of aircrafts, and reviewing whether the correspondences and the latest quote were consistent with the market value estimated by management.

Acquisition Costs of a New Fleet

In accordance with IAS 16 "Property, Plant and Equipment", acquisition costs of aircrafts should be allocated into several significant components, including airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and should be depreciated over different useful lives. As of December 31, 2016, the carrying amount of flight equipment was NT\$11,179,027 thousand. Refer to Notes 4, 5, and 14 in the accompanying financial statements for the related detailed information.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

CHINA AIRLINES, LTD.

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

The engagement partners on the audit resulting in this independent auditors' report are Chen-Hsin Yang and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 30, 2017

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	\$ 19,734,590	9	\$ 18,507,429	9
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7, and 30)	1,200	-	163,847	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 30)	51,403	-	45,744	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 30)	7,825,504	4	7,207,984	4
Notes and accounts - related parties (Notes 30 and 31)	439,509	-	546,141	-
Other receivables	833,754	1	762,988	-
Current tax assets (Notes 4 and 27)	21,652	-	7,124	-
Inventories, net (Notes 4 and 11)	8,338,980	4	8,203,921	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	185,100	-	670,455	-
Other current assets (Note 17)	2,476,800	1	1,788,406	1
Total current assets	39,998,492	19	37,904,039	18
NONCURRENT ASSETS				
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7, and 30)	-	-	1,710	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 30)	3,268	-	1,216	-
Financial assets carried at cost - noncurrent (Notes 9 and 30)	170,000	-	12,015	-
Investments accounted for by the equity method (Notes 4 and 13)	10,051,326	5	11,000,125	5
Property, plant and equipment (Notes 4, 5, 14 and 32)	129,121,632	61	118,444,472	57
Intangible assets (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	1,115,101	-	990,307	-
Deferred tax assets (Notes 4, 5 and 27)	5,749,714	3	6,690,802	3
Other noncurrent assets (Notes 17, 20, 30, 32 and 33)	23,422,263	11	31,917,111	15
Total noncurrent assets	171,630,951	81	171,238,811	82
TOTAL	\$ 211,539,443	100	\$ 209,142,850	100

LIABILITIES AND EQUITY

CURRENT LIABILITIES				
Short-term bills payable (Note 18)	\$ 900,000	1	\$ -	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 30)	20,854	-	301,912	-
Notes and accounts payable (Note 30)	638,876	-	1,000,050	-
Notes and accounts payable - related parties (Notes 30 and 31)	1,347,007	1	1,347,675	1
Other payables (Notes 21 and 26)	9,634,022	5	10,722,052	5
Current tax liabilities (Notes 4 and 27)	2	-	10,572	-
Deferred revenue - current (Notes 4, 5 and 22)	13,404,227	6	11,951,128	6
Bonds payable and put option of convertible bonds - current (Notes 4, 19, 25, 30 and 31)	2,700,000	1	4,944,106	2
Loans and debts - current (Notes 18, 30 and 32)	31,816,140	15	29,685,086	14
Capital lease obligations - current (Notes 4, 20, 30 and 32)	1,254,000	1	1,428,467	1
Other current liabilities (Note 30)	2,624,677	1	3,336,477	2
Total current liabilities	64,339,805	31	64,725,525	31
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 30)	2,775	-	11,291	-
Bonds payable - noncurrent (Notes 4, 19, 25, 30 and 31)	19,838,044	9	10,900,000	5
Loans and debts - noncurrent (Notes 18, 30 and 32)	52,833,478	25	53,849,371	26
Provisions - noncurrent (Notes 4, 5 and 23)	6,770,951	3	5,033,257	2
Deferred tax liabilities (Notes 4 and 27)	114,772	-	172,451	-
Capital lease obligations - noncurrent (Notes 4, 20, 30 and 32)	3,562,000	2	5,079,133	3
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,808,903	1	1,863,929	1
Net defined benefit liabilities - noncurrent (Notes 4, 5 and 24)	6,217,346	3	8,965,529	4
Other noncurrent liabilities (Note 30)	267,552	-	272,468	-
Total noncurrent liabilities	91,415,821	43	86,147,429	41
Total liabilities	155,755,626	74	150,872,954	72
EQUITY (Notes 19 and 25)				
Share capital	54,708,901	26	54,708,901	26
Capital surplus	799,932	-	798,415	-
Retained earnings				
Legal reserve	287,224	-	-	-
Special reserve	76,486	-	-	-
Unappropriated retained earnings (accumulated deficit)	(157,618)	-	2,872,235	1
Total retained earnings	206,092	-	2,872,235	-
Other equity	172,264	-	(66,283)	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	55,783,817	26	58,269,896	28
TOTAL	\$ 211,539,443	100	\$ 209,142,850	100

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

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.

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

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

CHINA AIRLINES, LTD.

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

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

	Retained Earnings			Unappropriated Earnings (Accumulated Deficit)		Exchange Differences on Translating Foreign Operations		Other Equity		Treasury Shares Held by Subsidiaries	Total Equity
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Shares Held by Subsidiaries				
BALANCE AT JANUARY 1, 2015	\$ 52,491,666	\$ 1,992,415	\$ -	\$ -	\$ (3,870,736)	\$ 99,852	\$ 4,015	\$ (43,372)	\$ 48,664,275		
Compensation of deficit - capital surplus	-	(1,511,953)	-	-	1,511,953	-	-	-	-		
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	64	-	-	-	-	-	-	64		
Convertible bonds converted to common shares	2,217,235	317,889	-	-	-	-	-	-	2,535,124		
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(1,609)	-	-	-	(1,609)		
Net income for the year ended December 31, 2015	-	-	-	-	5,763,714	-	-	-	5,763,714		
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(531,087)	58,107	(2,260)	-	1,308,328		
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	-	7,072,042		
BALANCE AT DECEMBER 31, 2015	54,708,901	798,415	-	-	2,872,235	157,959	1,755	(43,372)	58,269,896		
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	-	-	-	(1,638)	-	-	-	(1,638)		
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	(3,536)		
Appropriation of 2015 earnings	-	-	287,224	-	(287,224)	-	-	-	-		
Legal reserve	-	-	-	-	(76,486)	-	-	-	-		
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)	-	(545,437)		
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	-	26,103		
BALANCE AT DECEMBER 31, 2016	\$ 54,708,901	\$ 799,932	\$ 287,224	\$ 76,486	\$ (157,618)	\$ 78,564	\$ 1,714	\$ (43,372)	\$ 55,783,817		

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

CHINA AIRLINES, LTD.

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Pretax profit	\$ 1,537,251	\$ 6,837,822
Adjustments to reconcile pretax profit to net cash generated from operating activities:		
Debt expenses	49,878	46,500
Depreciation expenses	16,588,758	16,266,952
Amortization expenses	138,554	60,044
Net (gain) loss on fair value change of financial assets and liabilities held for trading	29,909	(150,714)
Interest income	(188,006)	(367,360)
Dividend income	(59,099)	(1,883,826)
Share of profit of associates and joint ventures	(100,602)	(615,042)
Loss on disposal of financial assets carried at cost	346	-
Gain on disposal of property, plant and equipment and noncurrent assets held for sale	(54,188)	(13,137)
Loss on inventories and property, plant and equipment	207,019	388,738
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	1,065,626	2,468,372
Net loss (gain) on foreign currency exchange	(10,773)	427,715
Loss on repurchase of bonds payable	41,943	-
Finance costs	1,221,588	1,711,983
Recognition of provisions	2,011,115	1,620,216
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	134,448	31,969
Decrease on derivative financial assets for hedging	13,096	-
Decrease (increase) in notes and accounts receivable	(785,159)	1,619,067
Decrease (increase) in accounts receivable - related parties	106,633	(49,269)
Increase in other receivables	(61,401)	(232,794)
Increase in inventories	(359,928)	(1,281,193)
Increase in other current assets	(355,393)	(319,672)
Increase (decrease) in notes and accounts payable	(353,373)	864,228
Decrease in accounts payable - related parties	(668)	(94,291)
Increase (decrease) in other payables	(1,490,845)	436,951
Increase in deferred revenue	1,398,073	1,522,238
Decrease in provisions	(366,218)	(3,560)
Increase in other current liabilities	275,042	360,431
Decrease in accrued pension liabilities	(3,337,565)	(246,731)
Cash generated from operations	17,281,549	29,391,125
Interest received	178,640	388,351
Dividends received	893,380	2,663,110
Interest paid	(1,121,355)	(1,725,744)
Income tax paid	(44,606)	(51,742)
Net cash generated from operating activities	17,187,608	30,665,100

(Continued)

CHINA AIRLINES, LTD.

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

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of financial assets measured at cost	\$ 5,579	\$ 245,242
Proceeds of share redemption of financial assets measured at cost	-	(13,096)
Acquisition of derivative financial assets for hedging	(100,000)	(124,091)
Payments for property, plant and equipment	(9,347,785)	(6,175,287)
Proceeds from disposal of property, plant and equipment	514,561	18,700
Proceeds from disposal of noncurrent assets held for sale	384,285	-
Increase in refundable deposits	(146,408)	(423,231)
Decrease in refundable deposits	167,312	644,532
Increase in prepayments for equipment	(17,573,019)	(13,382,155)
Refund in prepayments for aircraft	5,693,791	10,186,049
Increase in computer software costs	(265,615)	(400,737)
Decrease in restricted assets	206,714	53,543
Net cash used in investing activities	(20,460,585)	(9,370,531)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	900,000	(4,160,000)
(Decrease) increase in short-term bills payable	10,000,000	(1,998,138)
Proceeds from issue of bonds payable	(994,705)	-
Exercise of put option of bonds payable	(2,400,000)	-
Repayments of bonds payable	34,499,000	(9,025,000)
Proceeds of long-term debts	(35,052,725)	16,020,000
Repayments of long-term debts and capital lease obligations	98,282	(19,181,883)
Proceeds of guarantee deposits received	(76,477)	71,540
Refund of guarantee deposits received	(2,508,525)	(68,653)
Dividends paid to owners of the Company	-	-
Net cash generated from (used in) financing activities	4,464,850	(18,342,134)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	35,288	(273,494)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,227,161	2,678,941
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	18,507,429	15,828,488
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 19,734,590	\$ 18,507,429

(Concluded)

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

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

The major stockholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of both December 31, 2016 and 2015, CADF and NDF held a combined 43.63% of the Company's shares. As of December 31, 2016 and 2015, the Company had 12,648 and 12,437 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 30, 2017.

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

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

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

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

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")

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

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

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

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

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

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

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

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

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

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

The FSC announced that amendments to IFRS 4 (of which only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

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

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

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

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

The impairment of financial assets

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

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

Hedge accounting

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

2) IFRS 16 "Leases"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis of Preparation

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

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

Current and Noncurrent Assets and Liabilities

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

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

Foreign Currencies

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

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

- a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

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

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

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

Cash Equivalents

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

Inventories

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

Noncurrent Assets Held for Sale

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

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

Investments Accounted for by the Equity Method

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

- a. Investment in subsidiaries

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

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

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

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

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

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

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

- b. Investments in associates and joint ventures
- An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.
- The Company uses the equity method to account for its investments in associates and joint ventures.
- Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and jointly ventures. The Company also recognizes the changes in the Company's share of equity of associates and jointly ventures attributable to the Company.
- When the Company subscribes for additional new shares of the associate and joint ventures at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint ventures. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate and jointly controlled entity, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint ventures is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.
- When the Company's share of losses of an associate and joint ventures equals or exceeds its interest in that associate and joint ventures which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint ventures entity, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint ventures.
- Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate and joint ventures recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.
- The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.
- The Company discontinues the use of the equity method from the date on which it ceases to have significant influence and joint control. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the jointly controlled entity. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Property, Plant and Equipment

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

Freehold land is not depreciated.

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

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

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

Investment Properties

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable

amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

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

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

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

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

a) Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

b) Available-for-sale financial assets

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

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

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

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

c) Loans and receivables

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

2) Impairment of financial assets

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

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

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

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

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

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

- a) Significant financial difficulty of the issuer or counterparty;
- b) Breach of contract, such as a default or delinquency in interest or principal payments;
- c) It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- d) The disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

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

c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

d. Convertible bonds

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

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

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

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

e. Derivative financial instruments

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

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

b. Dividend and interest income

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

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

Leasing

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

a. Financial leases

The Company as lessee

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

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

b. Sales and leasebacks

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

1) Financial lease

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

2) Operating lease

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

Hedge Accounting

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

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

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

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

Provisions

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

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

Aircraft lease contracts

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

Revenue Recognition

a. Rendering of services

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

c. Operating lease

1) The Company as lessor

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

2) The Company as lessee

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

Borrowing Costs

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

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

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

Frequent Flyer Program

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

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

Share-based Payment Arrangements

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

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

Taxation

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

a. Current tax

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

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

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

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

b. Deferred tax

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

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

future revenue growth and profit margins, income tax exemption periods, the use of tax credits, tax planning and certain assumptions. Changes in the industry environment and regulations will result in a material adjustment of the deferred tax asset.

Estimated Impairment of Trade Receivables

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

Fair Value of Derivatives and Other Financial Instruments

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

Depreciation of Property, Plant and Equipment - Flight Equipment

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

Defined Benefit Obligations

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

Maintenance Reserve for Operating Lease Aircraft

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

Frequent Flyer Program

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

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

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

c. Current and deferred tax for the year

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

Maintenance and Overhaul Costs

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

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

Income Taxes

The Company is subject to income taxes in numerous jurisdictions. Where the final tax payable differs from the amounts that were initially recognized, these differences will affect the income tax and deferred tax provisions in the period in which the differences are determined. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be used. When evaluating the realizability of the deferred tax asset, management uses significant accounting judgments and estimates, including expected

Impairment of Flight Equipment

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

Impairment of Non-Current Assets Held For Sale

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

6. CASH AND CASH EQUIVALENTS

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

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

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

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

	2016	2015
<u>Financial assets held for trading - current</u>		
Derivative financial instruments (not under hedge accounting)	\$ 1,200	\$ 63,818
Foreign exchange forward contracts	-	100,029
Non-derivative financial assets	-	-
Beneficial certificates	<u>\$ 1,200</u>	<u>\$ 163,847</u>

Financial assets held for trading - noncurrent

Derivative financial instruments (not under hedge accounting)	\$ -	\$ 1,710
Foreign exchange forward contracts	-	-

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

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

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2016	2015
<u>Derivative financial assets under hedge accounting</u>		
Cash flow hedges		
Foreign exchange forward contracts	\$ 54,671	\$ 44,222
Currency options	-	12,403
Fuel options	-	335
	<u>\$ 54,671</u>	<u>\$ 56,960</u>
Current	\$ 51,403	\$ 45,744
Noncurrent	3,268	11,216
	<u>\$ 54,671</u>	<u>\$ 56,960</u>

Derivative financial liabilities under hedge accounting

Cash flow hedges		
Interest rate swaps	\$ 3,855	\$ 12,702
Foreign exchange forward contracts	19,774	-
Currency options	-	12,660
Fuel options	-	287,841
	<u>\$ 23,629</u>	<u>\$ 313,203</u>
Current	\$ 20,854	\$ 301,912
Noncurrent	2,775	11,291
	<u>\$ 23,629</u>	<u>\$ 313,203</u>

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

a. Interest rate swaps

The Company entered into interest rate swap contracts to mitigate the risk of changes in interest rates on the cash flow exposure related to the outstanding floating rate debt. All swapped fixed interest rate swap out the floating rate interest rate swap contracts are designated as cash flow hedges.

The outstanding interest rate swap contracts at the end of the reporting period were as follows:

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

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

b. Currency options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2015</u>			
Buy USD call option	JPY/USD	2016.01.8-2016.12.09	JPY3,446,570/USD28,400
Sell USD put option	JPY/USD	2016.01.8-2016.12.09	JPY3,364,604/USD28,400

c. Fuel options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2015</u>			
Buy fuel call options	USD	2016.01.31-2016.07.31	NTD335
Sell fuel put options	USD	2016.01.31-2016.07.31	NTD287,841

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

d. Foreign exchange forward

The Company entered into foreign exchange forward contracts to minimize the risk of changes in foreign currency rates on the cash flow exposure related to fuel payments and aircraft payments, which will be paid in U.S. dollars.

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2016</u>			
Buy forward contracts	NTD/USD	2017.01.13-2018.10.25	NTD5,019,355/USD155,600
<u>December 31, 2015</u>			
Buy forward contracts	NTD/USD	2016.01.22-2017.05.23	NTD822,368/USD25,000

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

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

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

9. FINANCIAL ASSETS CARRIED AT COST

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

(Continued)

11. INVENTORIES

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

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

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

12. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2016	2015
Aircrafts held for sale	<u>\$ 185,100</u>	<u>\$ 670,455</u>

Aircrafts held for sale

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

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

Investments in subsidiaries
Investments in associates
Investments in jointly controlled entities

a. Investment in subsidiaries

	December 31	
	2016	2015
Unlisted companies		
Cal Park	\$ 1,529,375	\$ 1,510,824
Mandarin Airlines	1,125,057	1,367,156
Cal-Dynasty International	<u>1,244,328</u>	<u>1,239,445</u>
		(Continued)

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

Classified according to financial asset measurement categories

Available-for-sale financial assets

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

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

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

Notes receivable

Accounts receivable

Accounts receivable

Less: Allowance for impairment loss

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

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

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

Beginning balance

Impairment loss of accounts receivable

Less: Amounts written off as uncollectable

Ending Balance

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

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

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

b. Investments in associates

	December 31	
	2016	2015
<u>Unlisted companies</u>		
China Aircraft Services	\$ 515,051	\$ 490,824
Kaohsiung Catering Services	267,371	244,903
Asian Compressor Technology Services	279,176	263,091
Science Park Logistics	<u>257,928</u>	<u>185,226</u>
	1,319,526	1,184,044
Prepayments of long-term investments - Science Park Logistics	-	<u>64,091</u>
	<u>\$ 1,319,526</u>	<u>\$ 1,248,135</u>

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

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

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

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

	2016	2015
China Aircraft Services	\$ 51,028	\$ 46,247
Kaohsiung Catering Services	75,674	58,084
Asian Compressor Technology Services	109,815	93,375
Science Park Logistics	<u>26,136</u>	<u>16,373</u>
	<u>\$ 262,653</u>	<u>\$ 214,079</u>

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

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

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

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries.

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

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

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2016	2015
China Pacific Catering Services	\$ 638,980	\$ 705,134
China Pacific Laundry Services	<u>167,048</u>	<u>161,869</u>
	<u>\$ 806,028</u>	<u>\$ 867,003</u>

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

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

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

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

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

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

The investments in jointly controlled entities accounted for by the equity method and the Company's shares of their profit or loss and other comprehensive income were based on the jointly controlled entities' financial statements which had not been reviewed by independent auditors. However, the Company's management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

(Continued)

15. INVESTMENT PROPERTIES

December 31
2016 2015

Carrying amount		\$ 2,047,448	\$ 2,047,448
Investment properties		<u>\$ 2,047,448</u>	<u>\$ 2,047,448</u>

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

The fair value of the investment properties held by the Company was \$2,316,300 thousand as of both December 31, 2016 and 2015. The fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

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

16. OTHER INTANGIBLE ASSETS

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

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

17. OTHER ASSETS

	2016	2015
<u>Current</u>		
Temporary payments	\$ 166,236	\$ 527,289
Prepayments	2,091,371	874,452
Others	<u>219,193</u>	<u>386,665</u>
	<u>\$ 2,476,800</u>	<u>\$ 1,788,406</u>

(Continued)

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

(Concluded)

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

Building		
Main buildings	45-55 years	
Others	10-25 years	
Machinery and equipment		
Electro-mechanical equipment	25 years	
Others	3-13 years	
Office equipment	3-15 years	
Leasehold improvements	5 years	
Building improvements	3-5 years	
Others		
Flight equipment and equipment under finance leases		
Airframes	18-25 years	
Aircraft cabins	10-20 years	
Engines	12-20 years	
Heavy maintenance on aircrafts	6-8 years	
Engine overhauls	3-10 years	
Landing gear overhauls	8-12 years	
Repairable spare parts	3-15 years	
Improvement of aircrafts	5-12 years	

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

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

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

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

	Currency	
	New Taiwan Dollars	U.S. Dollars
<u>Original currency</u>		
December 31, 2016	\$ 46,464,267	\$ 32,536
December 31, 2015	48,282,617	122,827
<u>Translated to New Taiwan dollars</u>		
December 31, 2016	46,464,267	1,049,537
December 31, 2015	48,282,617	4,040,369
<u>Interest rates</u>		
December 31, 2016	0.92%-1.60%	0.8539%-4.39%
December 31, 2015	1.1432%-1.83%	0.4067%-4.39%
<u>Periods</u>		
December 31, 2016	2005/3/4-2028/10/18	2005/1/18-2017/9/21
December 31, 2015	2004/12/16-2021/3/12	2004/6/28-2017/9/21

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until February 2021, were used by the Company to guarantee commercial paper which it issued. The commercial paper was issued at discount rates of 1.0510%-1.4580% in 2016 and 1.2407%-1.5833% in 2015.

19. BONDS PAYABLE

	December 31	
	2016	2015
Secured corporate bonds - first issue in 2011	\$ -	\$ 2,400,000
Unsecured corporate bonds first-time issued in 2013	10,900,000	10,900,000
Unsecured corporate bonds first-time issued in 2016	5,000,000	-
Unsecured corporate bonds second-time issued in 2016	5,000,000	-
Convertible bonds - fifth issue	1,638,044	2,544,106
	22,538,044	15,844,106
	2,700,000	4,944,106
Less: Current portion and put option of convertible bonds	\$ 19,838,044	\$ 10,900,000

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

The prepayments for aircrafts comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and 777-300ER aircrafts. For details of the A350-900 aircrafts purchase contracts, refer to Note 33. The rights to purchase the six confirmed orders of 777-300ER aircrafts were transferred to the aircraft leasing company upon delivery of the aircrafts. Then, all six aircrafts were leased back. As of May 2016, all the aircrafts had been delivered, and the Company was refunded with deposits for the aircraft purchases.

18. BORROWINGS

a. Short-term bills payable		
Commercial paper	\$ 900,000	\$ -
Less: Unamortized discount on bills payable	-	-
	\$ 900,000	\$ -
Annual discount rate	0.758%	-
b. Long-term debts		
	December 31	2015
	2016	
Unsecured bank loans	\$ 31,183,999	\$ 31,225,000
Secured bank loans	16,329,805	21,097,986
Commercial paper	37,200,000	31,275,000
Proceeds from issue	64,186	65,529
Less: Unamortized discount	84,649,618	83,532,457
	31,816,140	29,683,086
Less: Current portion	\$ 52,833,478	\$ 53,849,371

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

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and January 2018; 1.6% interest p.a., payable annually	2013.1.17-2018.1.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and January 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a., payable annually	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in May of 2020 and 2021; interest p.a., payable annually	1.08
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Unless bonds are converted to share capital or redeemed, principal repayable one time in December 2018; 1.8245% discount rate p.a.	-

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

The Company made the fifth issue of unsecured convertible bonds, and the issue conditions are as follows:

- The holders may demand a lump-sum payment for the bonds upon maturity.
- The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise put options on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" on December 26, 2015. The Company paid a total of \$994,705 thousand to the holders who exercised the put options, and the difference between the payment amount and carrying amount was recognized as a loss of \$41,943 thousand. When the options expired, the remaining amount of bonds payable were reclassified as non-current liabilities.
- The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.
- Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$12.24, which is subject to adjustment if there is a capital injection by cash, stock dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 31, 2016, the conversion price was adjusted to NT\$11.64, and corporate bonds with a face value of \$3,315,700 thousand were converted to 270,890 thousand of common shares.

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

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

20. CAPITAL LEASE OBLIGATIONS

- Sale-leasebacks - finance leases

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

As of December 31, 2016, the Company entered into sale-leaseback contracts for leasing 4 aircrafts including A330-300 and B747-400 aircrafts under finance leases. The lease terms are from June 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to the aircrafts and engines and enjoyed the same substantive rights as were enjoyed prior to the transaction. Interest rate underlying all obligations under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

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

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

The rental rates stated in the aircraft lease agreements are fixed or floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually. Subleasing is not allowed for all the lease arrangements. As of December 31, 2016, the Company has rented eleven A330-300 aircrafts, thirteen 737-800 aircrafts and ten 777-300ER aircrafts under operating contracts; the lease terms range from 8 to 12 years.

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

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

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

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

	For the Year Ended December 31	
	2016	2015
Minimum lease payments	<u>\$ 9,662,625</u>	<u>\$ 7,210,055</u>

21. OTHER PAYABLES

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

22. DEFERRED REVENUE

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

23. PROVISIONS

	December 31	
	2016	2015
Operating leases - aircrafts	<u>\$ 6,770,951</u>	<u>\$ 5,033,257</u>

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

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

24. RETIREMENT BENEFIT PLANS

- a. Defined contribution plans

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

- b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

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

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

Movements in net defined benefit liability were as follows:

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

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

- Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. Based on relevant regulations, the return generated by plan assets should not be below the interest rate for a two-year time deposit with local banks.
- Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. Thus, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligations.

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

	<u>December 31</u>	<u>2015</u>
Discount rate	1.29%	1.11%
Expected rate of salary increase	1.00%	1.00%

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

	<u>December 31</u>	<u>2015</u>
Discount rate		
0.5% increase	\$ (496,081)	\$ (475,494)
0.5% decrease	<u>\$ 538,301</u>	<u>\$ 515,961</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 517,191</u>	<u>\$ 495,727</u>
0.5% decrease	<u>\$ (485,527)</u>	<u>\$ (465,377)</u>

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

	<u>December 31</u>	<u>2015</u>
The expected contributions to the plan for the next year	<u>\$ 691,530</u>	<u>\$ 583,456</u>
The average duration of the defined benefit obligation	10 years	9.9 years

25. EQUITY

a. Share capital

Common shares

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

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

b. Capital surplus

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

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

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

c. Appropriation of earnings and dividend policy

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

For the earnings distribution under the Articles before the amendment, refer to Note 25 of the financial statements for the year ended December 31, 2015.

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

Appropriation of earnings in 2014

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

Appropriation of earnings in 2015

The appropriations resolved in the stockholders' meeting on June 24, 2016 were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 287,224	
Special reserve	76,486	
Cash dividends	2,508,525	\$0.458522382
<u>Compensation of 2016 deficit</u>		

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

d. Other equity items

The movement of other equity items is as follows:

	<u>Exchange Differences on Translating Foreign Operations</u>	<u>Unrealized Gain (Loss) on Available-for-sale Financial Assets</u>	<u>Cash Flow Hedge</u>	<u>Total</u>
Balance at January 1, 2015	\$ 99,852	\$ 4,015	\$ (2,009,565)	\$ (1,905,698)
Exchange differences arising on translating the foreign operations	67,886	-	-	67,886
Cash flow hedge on change in fair value	-	-	(403,323)	(403,323)

(Continued)

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

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

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

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

26. NET INCOME

	For the Year Ended December 31 2016	2015
a. Revenue	\$ 86,298,238	\$ 87,908,718
Passenger	35,353,349	39,916,992
Cargo	<u>5,873,277</u>	<u>5,616,015</u>
Others	\$ <u>127,524,864</u>	\$ <u>133,441,725</u>
b. Other income		
Interest income	\$ 188,006	\$ 367,360
Subsidy income	168,377	184,512
Dividend income	59,099	1,883,826
Others	<u>177,969</u>	<u>514,067</u>
	\$ <u>593,451</u>	\$ <u>2,949,765</u>

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

e. Treasury shares

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

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

c. Other gains and losses

	<u>For the Year Ended December 31</u>	<u>2016</u>	<u>2015</u>
Gain on disposal property, plant and equipment and noncurrent assets held for sale	\$	54,188	\$ 13,137
Net gain (loss) arising on financial assets classified as held for trading		(29,909)	150,714
Gain or loss on foreign exchange, net		(495,350)	248,626
Impairment loss on noncurrent assets held for sale		(347,868)	(1,899,372)
Impairment loss on flight equipment		(717,758)	(569,000)
Others		<u>(874,224)</u>	<u>(844,204)</u>
		<u>\$ (2,410,921)</u>	<u>\$ (2,900,099)</u>

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

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

d. Finance costs

	<u>For the Year Ended December 31</u>	<u>2016</u>	<u>2015</u>
Interest expense	\$	297,032	\$ 292,242
Bonds payable		845,987	1,280,181
Bank loans		68,179	132,409
Interest on obligations under finance leases		<u>10,390</u>	<u>7,151</u>
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss		<u>\$ 1,221,588</u>	<u>\$ 1,711,983</u>

Information about capitalized interest is as follows:

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

e. Depreciation and amortization

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

f. Employee benefits expense

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

To be in compliance with the Company Act as amended in June 2016, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of net profit before income tax and employees' compensation. For the years ended December 31, 2016 and 2015, employees' compensation was \$382,318 thousand and \$1,810,196 thousand, respectively, of the base net profit.

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

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

27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

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

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

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

b. Income tax recognized in other comprehensive income

	<u>For the Year Ended December 31</u>	<u>2015</u>
	<u>2016</u>	<u>2015</u>
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	\$ 13,618	\$ (9,306)
Fair value changes of hedging instruments for cash flow hedges	(51,019)	(366,060)
Actuarial gain or loss on defined benefit plan	<u>100,195</u>	<u>92,088</u>
Total income tax recognized in other comprehensive income	<u>\$ 62,794</u>	<u>\$ (283,278)</u>

c. Deferred tax assets and liabilities

For the year ended December 31, 2016

	<u>Beginning Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Ending Balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plan	\$ 1,525,482	\$ (564,470)	\$ 100,195	\$ 1,061,207
Frequent flyer program	452,949	(31,254)	-	421,695
Maintenance reserve	855,653	295,408	-	1,151,061
Allowance for reduction of inventory	172,901	26,191	-	199,092
Others	849,476	(210,207)	(45,561)	593,708
Loss carryforwards	<u>2,834,341</u>	<u>(511,390)</u>	<u>-</u>	<u>2,322,951</u>
	<u>\$ 6,690,802</u>	<u>\$ (995,722)</u>	<u>\$ 54,634</u>	<u>\$ 5,749,714</u>

Deferred tax liabilities

Temporary differences				
Depreciation difference from fixed assets	\$ 125,008	\$ (39,059)	\$	\$ 85,949
Others	<u>47,443</u>	<u>(10,460)</u>	<u>(8,160)</u>	<u>28,823</u>
	<u>\$ 172,451</u>	<u>\$ (49,519)</u>	<u>\$ (8,160)</u>	<u>\$ 114,772</u>

For the year ended December 31, 2015

	<u>Beginning Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Ending Balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plan	\$ 1,475,338	\$ (41,944)	\$ 92,088	\$ 1,525,482
Frequent flyer program	432,196	20,753	-	452,949
Maintenance reserve	580,822	274,831	-	855,653
Allowance for reduction of inventory	148,436	24,465	-	172,901
Others	1,038,650	176,908	(366,082)	849,476
Loss carryforwards	<u>4,380,524</u>	<u>(1,546,183)</u>	<u>-</u>	<u>2,834,341</u>
	<u>\$ 8,055,966</u>	<u>\$ (1,091,170)</u>	<u>\$ (273,994)</u>	<u>\$ 6,690,802</u>
				(Continued)

28. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

	<u>For the Year Ended December 31</u>	
	2016	2015
Basic earnings per share	\$ 0.10	\$ 1.06
Diluted earnings per share	\$ 0.10	\$ 1.00
Earnings used in the computation of basic earnings per share	\$ 571,540	\$ 5,763,714
Effect of potentially dilutive common shares:		
Interest on convertible bonds (after tax)	-	47,716
Earnings used in the computation of diluted earnings per share	\$ 571,540	\$ 5,811,430
Weighted average number of common shares in computation of basic earnings per share	5,468,002	5,432,728
Effect of potentially dilutive common shares:		
Convertible bonds	-	255,186
Employees' compensation or bonus issue	47,337	150,850
Weighted average number of common shares used in the computation of diluted earnings per share	5,515,339	5,838,764

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonus would be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Company needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange gain	\$ 78,125	\$ (78,125)	\$ -	\$ -
Depreciation difference from fixed assets	126,488	(1,480)	-	125,008
Others	34,977	3,182	9,284	47,443
	<u>\$ 239,590</u>	<u>\$ (76,423)</u>	<u>\$ 9,284</u>	<u>\$ 172,451</u>
				(Concluded)
2016				

Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets are as follows:

	<u>December 31</u>	<u>2015</u>
Loss carryforwards		
Expiry in 2019	\$ 7,300,000	\$ 4,500,000

d. Unused tax loss carryforwards as of December 31, 2016 were as follows:

Expiry Year	Unused Amount
2019	\$ 17,328,027
2021	2,899,496
2022	619,799
2026	<u>117,099</u>
	<u>\$ 20,964,421</u>

e. Integrated income tax

	<u>December 31</u>	<u>2015</u>
Imputation credit accounts	\$ 102,527	\$ 551,908

The actual creditable tax ratio in 2015 was 20.22%, and the Company accumulated deficit as of December 31, 2016; thus, there were no expected creditable tax ratios.

Under the Income Tax Law for the distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident stockholders of the Company was calculated based at the creditable ratio as of the date of the dividends distribution.

f. The income tax returns of the Company through 2014 have been examined by the tax authorities.

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Fair value of financial instruments not carried at fair value

	December 31		
	2016	Fair Value	2015
	Carrying Amount	Fair Value	Carrying Amount
			Fair Value
<u>Financial liabilities</u>			
Bonds payable	\$ 22,538,044	\$ 22,580,069	\$ 15,844,106
Bank loans	84,649,618	86,734,531	83,532,457
			\$ 16,459,680
			83,693,104

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. The fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 1.19% in 2016 and 0.433% in 2015 prevailing in the market for long-term debts (Level 2). The fair values of bonds payable are based on those which are traded in the stock exchange and based on quoted market prices (Level 1).

2) Fair value measurements recognized in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	\$ -	\$ 1,200	\$ -	\$ 1,200
Derivative financial assets for hedging	\$ -	\$ 54,671	\$ -	\$ 54,671
Derivative financial liabilities for hedging	\$ -	\$ 23,629	\$ -	\$ 23,629

December 31, 2015

Level 1

Financial assets at FVTPL
 Derivative instrument \$ - \$ 65,528 \$ - \$ 65,528
 Beneficial certificates 100,029 - - 100,029

Level 2 \$ 65,528 \$ - \$ - \$ 65,528
 Level 3 \$ 12,738 \$ 300,501 \$ - \$ 313,239
 Total \$ 165,557 \$ 313,239 \$ - \$ 478,796

There were no transfers between Level 2 and 3 in the current and prior periods.

2016
 d) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments Valuation Techniques and Inputs

Derivatives - foreign exchange forward contracts and interest rate swaps Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

e) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

The fair values of foreign exchanges and fuel options are determined using option pricing models where the significant unobservable inputs are historical volatility. An increase in the historical volatility used in isolation would result in a decrease in the fair value of foreign exchanges and fuel options.

Because some financial instruments and non-financial instruments are not required to have their fair values disclosed, the total fair value shown in this note does not represent the total value of the Company.

b. Categories of financial instruments

	December 31	
	2016	2015
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 1,200	\$ 165,557
Available-for-sale financial assets (3)	120,200	126,125
Derivative financial assets for hedging	54,671	56,960
Loans and receivables (1)	29,522,622	27,834,830
	\$ 29,698,693	\$ 28,183,472

(Continued)

December 31
2015

Financial liabilities

Derivative financial liabilities for hedging	\$ 23,629	\$ 313,203
Financial liabilities at amortized cost (2)	<u>122,866,720</u>	<u>119,588,050</u>
	<u>\$ 122,890,349</u>	<u>\$ 119,901,253</u>
		(Concluded)

- 1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, accounts receivable - related parties, other receivables, refundable deposits, other financial assets and other restricted financial assets.
 - 2) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, part of other current liabilities, part of other noncurrent liabilities and guarantee deposits.
 - 3) The balances include financial assets measured at cost.
- c. Financial risk management objectives and policies

The Company has risk management and hedging strategies to respond to changes in the economic, financial environment and in the fuel market. To reduce the financial risks from changes in interest, exchange rates and fuel prices, the Company has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by Company stockholders to reduce the impact of changes in market price on earnings. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

In addition, the Company has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging portion. This committee informs the Company of global economic and financial conditions, controls the entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

The Company is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Company entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

The Company enters into forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

The Company enters into foreign currency option contracts to hedge against the risks on change in related exchange rates, enters into forward contracts to hedge against the risks on changes in foreign-currency assets, liabilities and commitments in the related exchange rates.

Sensitivity analysis

The Company is mainly exposed to the U.S. dollar.

The following details the Company's sensitivity to a one dollar increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies (i.e. the U.S. dollar). This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for a one U.S. dollar increase/decrease against the New Taiwan dollar.

When the New Taiwan dollar increases one dollar against the U.S. dollar and all other variables were held constant, there would be an increase in pre-tax profit in 2016 of \$9,026 thousand and a decrease in pre-tax profit in 2015 of \$127,516 thousand.

b) Interest rate risk

The Company enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates.

The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

The carrying amount of the Company's financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	<u>2016</u>	<u>2015</u>
Fair value interest rate risk	\$ 26,258,421	\$ 16,540,596
Cash flow interest rate risk	86,645,240	89,343,567

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. One yard (25 basis) increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates increased one yard (25 basis) and had all other variables been held constant, the Company's pretax profit for the year ended December 31, 2016 would have decreased by \$21,613 thousand.

Had interest rates increase one yard (25 basis) and had all other variables been held constant, the Company's pretax profit for the year ended December 31, 2015 would have decreased by \$160,250 thousand.

c) Other price risk

The Company is exposed to fuel price risk on its purchase of aviation fuel. The Company enters into fuel option contract to hedge against adverse risks on fuel price changes.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to fuel price risks at the end of the reporting period.

	For the Year Ended December 31		
	2016	2015	
	Pre-tax Profit Increase (Decrease)	Other Comprehensive Income Increase (Decrease)	Other Comprehensive Income Increase (Decrease)
Fuel price increase 5%	\$ -	\$ -	\$ (32,769)
Fuel price decrease 5%	-	(9,799)	(106,002)

2) **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Company has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Company consider into the financial condition of the customers, the credit rating agency rating, the Company's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Company uses certain credit enhancement tools to reduce the credit risk of specific customers.

Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Company's finance department. The Company's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, the risk of Counterparties fail to discharge an obligation is low, therefore there is no significant credit risk.

Endorsements given by the Company on behalf of its subsidiaries can be found in Note 31.c.

3) **Liquidity risk**

The objective of the Company's management of liquidity is to maintain cash and cash equivalents are sufficient for operating purpose, marketable securities with high liquidity and sufficient Loan Commitments and ensure the Company has adequate financial flexibility.

Liquidity and interest risk rate tables

The following table shows the remaining contractual maturity analysis of the Company's financial liabilities with agreed-upon repayment periods, which were based on the date the Company may be required to pay the first repayment and financial liabilities is evaluated based on undiscounted cash flows, including cash flows of interest and principal.

Bank loans with a repayment on demand clause were included in the second column of the table below regardless of whether or not the banks would choose to exercise early their rights to repayment. The maturity dates for other non-derivative financial liabilities were based on the agreed-upon repayment dates. The Company's liquidity analysis for its derivative financial instruments is also shown in the following table. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross cash inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by yield curves at the end of the reporting period.

December 31, 2016

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.0508	\$ 313,500	\$ 940,500	\$ 2,966,000	\$ 596,000	\$ -
Floating interest rate liabilities	1.2477	4,266,076	26,698,266	14,579,283	31,315,615	4,970,000
Fixed interest rate liabilities	0.016	401,268	419,109	2,000,000	-	-
Derivative instruments	-	2,655	18,200	2,775	-	-
Bonds payable	1.3384	-	2,700,000	4,338,044	15,500,000	-
		<u>\$ 4,983,499</u>	<u>\$ 30,776,075</u>	<u>\$ 23,886,102</u>	<u>\$ 47,411,615</u>	<u>\$ 4,970,000</u>

December 31, 2015

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.2934	\$ 357,118	\$ 1,071,350	\$ 1,517,133	\$ 3,562,000	\$ -
Floating interest rate liabilities	1.2233	6,893,834	22,306,473	33,457,662	19,898,375	260,688
Fixed interest rate liabilities	0.0437	113,811	341,433	241,246	-	-
Derivative instruments	-	110,660	197,880	4,664	-	-
Bonds payable	1.3798	-	4,944,106	10,900,000	-	-
		<u>\$ 7,475,423</u>	<u>\$ 28,861,242</u>	<u>\$ 35,220,705</u>	<u>\$ 34,360,375</u>	<u>\$ 260,688</u>

2016 loan commitments

	December 31	2015
	2016	
Unused bank loan limit (unsecured)	\$ 14,424,006	\$ 22,172,000

31. RELATED-PARTY TRANSACTIONS

Details of transactions between the Company and its related parties are disclosed below:

a. Operating transactions

	Sales of Goods		Purchases of Goods	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2016	2015	2016	2015
Associates	\$ 3,053,926	\$ 3,449,074	\$ 3,539,079	\$ 3,568,025
Jointly controlled entities	\$ 14,325	\$ 13,950	\$ 1,613,899	\$ 1,531,649
Major stockholders	\$ 28,328	\$ 34,835	\$ 63,084	\$ 78,374

The amount of accounts receivable - related parties at reporting dates were as follows:

	December 31	
	2016	2015
Associates	\$ 436,447	\$ 542,449
Jointly controlled entities	1,550	599
Major stockholders	1,512	3,093
	\$ 439,509	\$ 546,141

The amount of accounts payable - related parties at reporting dates were as follows:

	December 31	
	2016	2015
Associates	\$ 912,002	\$ 952,166
Jointly controlled entities	431,502	388,371
Major stockholders	3,503	7,138
	\$ 1,347,007	\$ 1,347,675

The outstanding accounts payable from related parties are unsecured and will be paid in cash, and the terms of making collections and payables is from 30 days to 90 days; accounts receivable from related parties does not gather any deposit, and no expense was recognized for allowance for impairment loss.

b. Lease of properties (operating leases)

The Company rented out planes to Mandarin Airlines under an operating lease contract. The monthly rent received is based on flight hours. In 2016 and 2015, the rentals received amounted to \$1,022,817 thousand and \$1,388,499 thousand, respectively.

For fleet scheduling, the Company rented planes from Mandarin Airlines under an operating lease agreements beginning from July 2003. The Company paid the rental by flight hours. The payments of flight rentals were \$17,519 thousand in 2016 and \$205,604 thousand in 2015.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. In 2016 and 2015, the Company paid rentals of about \$63,084 thousand and \$78,374 thousand, respectively.

In March 2010, the Company signed with CAL Park a yearly renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport at a fixed rental of \$18,101 thousand monthly. In both 2016 and 2015, the Company paid rentals of \$217,210 thousand.

c. Endorsements and guarantees

	December 31		December 31	
	2016	Actual Amount Used	2015	Actual Amount Used
<u>The Company</u>				
Cal Park	\$ 3,850,000	\$ 2,783,000	\$ 3,400,000	\$ 2,739,000
Taiwan Air Cargo Terminal	1,080,000	436,418	1,080,000	486,815
Freighter Prince Ltd.	-	-	236,629	236,629
Cal Hotel	180,000	-	180,000	6,343
Tigerair Taiwan	919,742	438,740	937,895	447,399

d. Bonds payable - related parties

Related parties that invested in the first issue of unsecured bonds in 2016 (Note 19) are summarized as follows:

	December 31, 2016	
	Units	Aggregate Par/Dollars
<u>The first issue of unsecured bonds in 2016</u>		
Mandarin Airlines	250	\$ 250,000
Sabre Travel Network (Taiwan)	50	50,000

In 2016, interest expenses was \$2,142 thousand. This bonds payable will be paid off in May 2021. As of December 31, 2016 the interest payable was \$2,142 thousand.

e. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 47,748	\$ 45,813
Post-employment benefits	12,269	3,865
	\$ 60,017	\$ 49,678

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

32. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for long-term bank loans, lease obligations and business transactions:

	<u>December 31</u>	<u>2015</u>
Property, plant and equipment	\$ 76,096,729	\$ 88,609,505
Restricted assets - noncurrent	-	236,634
US treasury bills	<u>\$ 76,096,729</u>	<u>\$ 88,846,139</u>

The above US treasury bills had been pledged as collaterals for Freighter Prince Ltd., which classified as restricted assets - noncurrent.

33. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2016, the Company had commitments and contingent liabilities which were as follows:

- a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate listing purchase prices of US\$3,933,235 thousand and US\$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of December 31, 2016, four of the aircrafts had been delivered to the Company, and the aggregated listing purchase price of the remaining ten aircrafts was \$2,839,377 thousand, which has been paid in the amount of US\$637,908 thousand (recognized as prepayments for aircrafts).
- b. For the future development of the Company's business, the Company entered into lease contracts with BOC Aviation with a letter to lease six 737-800 aircrafts. The expected delivery period would begin from September 2016. As of December 31, 2016, four of the aircrafts had been delivered.
- c. The Company has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action lawsuit filed at the U.S. Northern District Court of California by a group of passengers who alleged that there was an antitrust violation in December 2007. The Company has properly joined the defendants' Joint Defense Group.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

<u>December 31, 2016</u>		Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>				
Monetary items				
USD	\$ 240,758		32.2581	\$ 7,764,768
EUR	15,642		34.0136	532,068
HKD	273,058		4.1580	1,135,374
JPY	4,799,620		0.2770	1,329,495
RMB	428,196		4.6425	1,987,898
<u>Financial liabilities</u>				
Monetary items				
USD	250,734		32.2581	8,088,204
EUR	6,511		34.0136	221,448
HKD	84,450		4.1580	351,141
JPY	4,408,042		0.2770	1,221,028
RMB	106,305		4.6425	493,520
<u>December 31, 2015</u>				
<u>Financial assets</u>				
Monetary items				
USD	\$ 283,326		32.8947	\$ 9,319,930
EUR	15,820		35.9712	569,057
HKD	229,643		4.2445	974,720
JPY	1,472,009		0.2731	402,006
RMB	1,713,347		5.0659	8,679,643
<u>Financial liabilities</u>				
Monetary items				
USD	113,609		32.8947	3,737,148
EUR	8,332		35.9712	299,726
HKD	76,421		4.2445	324,371
JPY	4,515,925		0.2731	1,233,299
RMB	121,287		5.0659	614,428

For the years ended December 31, 2016 and 2015, the Company's net foreign exchange gains (losses) were \$(495,350) thousand and \$248,626 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

35. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None.
 - 2) Endorsement/guarantee provided: Table 1 (attached).
 - 3) Marketable securities held: Table 2 (attached).
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None.
 - 5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None.
 - 6) Disposal of individual real estates at costs or prices of at least NT\$100 million or 20% of the paid-in capital: None.
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached).
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached).
 - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached).
 - 10) Derivative financial transactions: Notes 7 and 8.
- b. Investment in Mainland China: Table 6 (attached).

36. SEGMENT INFORMATION

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the fleet, which is jointly used for passenger and cargo services. Thus, the Company's sole reportable segment is the flight segment. For operating segment reporting in the financial statements, the Company's reportable segment comprises the flight and the non-flight business departments.

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limit on Each Counter-party's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park Taiwan Air Cargo Terminal Freighter Prince Ltd. Cal Hotel Tigerair Taiwan Ltd.	100% subsidiary 54% subsidiary 100% subsidiary 100% subsidiary 90% subsidiary by direct and indirect holdings	\$ 11,156,763 11,156,763 11,156,763 11,156,763 11,156,763	\$ 3,850,000 1,080,000 240,586 180,000 953,579	\$ 3,850,000 1,080,000 - 180,000 919,742	\$ 2,783,000 -436,418 - - 438,740	\$ - - - -	6.90 1.94 - 0.32 1.65	\$ 27,891,909 27,891,909 27,891,909 27,891,909 27,891,909	Y Y Y Y Y	N N N N N	N N N N N

Note 1: Based on the Company's guidelines, the maximum amount of guarantee to an individual counter-party is up to 20% of the Company's stockholders' equity.

Note 2: Based on the Company's guidelines, the allowable aggregate amount of collateral guarantee is up to 50% of the Company's stockholders' equity.

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2016			Note
				Number of Shares/Units	Carrying Value	Percentage of Ownership (%)	
China Airlines ("Parent company")	<u>Stock</u> Everest Investment Holdings Ltd. - common stock	-	Financial assets carried at cost - noncurrent	1,359,368	\$ 52,704	13.59	\$ 64,474 Note 1
	Everest Investment Holdings Ltd. - preferred stock	-	Financial assets carried at cost - noncurrent	135,937	473	-	- Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	21,487 -
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	6,921 -
Mandarin Airlines	<u>Stock</u> China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	19,294	-	19,294 -
	<u>Beneficiary certificates</u> Fuh Hwa Money Market Fund Barclays America Bonds Fund	- -	Financial assets at fair value through profit or loss - current Financial assets at fair value through profit or loss - current	15,302,543 1,000,000	184,235 32,361	- -	184,235 32,361 -
Cal-Asia Investment	<u>Stock</u> Taikoo (Xiamen) Landing Gear Services Taikoo Spirit Aerospace Systems (Jinjiang) Composite	- -	Financial assets carried at cost - noncurrent Financial assets carried at cost - noncurrent	- -	- 20,157	5.83 5.45	(48,552) 24,577 Note 2 Note 2
	<u>Beneficiary certificates</u> Mirae Asset Solomon Money Market Fund Mega Diamond Money Market Fund Franklin Templeton SinoAm Money Market Fund FSITC Taiwan Money Market Fund FSITC Money Market Fund	- - - -	Financial assets at fair value through profit or loss - current Financial assets at fair value through profit or loss - current Financial assets at fair value through profit or loss - current Financial assets at fair value through profit or loss - current	265,726 4,637,003 5,360,663 3,360,289 155,632	3,321 57,584 54,855 50,900 27,502	- - - - -	3,321 57,584 54,855 50,900 27,502 -
Taiwan Airport Services	<u>Stock</u> TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,277,786	-	0.4	- -
Hwa Hsia	<u>Stock</u> China Airlines	Parent company	Available-for-sale financial asset - current	814,152	7,572	-	7,572 -
	<u>Beneficiary certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,683	-	4,683 -

Note 1: The subsidiary's net asset value was \$64,474 thousand, which included common stock and preferred stock as of and for the year ended December 31, 2016.

Note 2: The Company does not issue stocks because it is a limited company.

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details			Abnormal Transaction		Note/Account Payable or Receivable		Note	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 427,875	0.38	30 days	\$ -	-	\$ (43,767)	(2.99)	-
	Hua Hsia	Subsidiary	Purchase	314,048	0.28	2 months	-	-	(55,480)	(3.79)	-
	Mandarin Airlines	Subsidiary	Sale	(2,575,551)	2.02	2 months	-	-	377,970	4.06	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,504,966	1.34	90 days	-	-	(411,698)	(28.14)	-
	Cal Park	Subsidiary	Purchase	217,210	0.19	2 months	-	-	(57,018)	(3.90)	-
	Taiwan Airport Services	Subsidiary	Purchase	369,255	0.33	40 days	-	-	(61,101)	(4.18)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,148,069	1.02	40 days	-	-	(323,510)	(22.11)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	291,814	0.26	60 days	-	-	(68,324)	(4.67)	-
	China Aircraft Services	Equity-method investee	Purchase	210,390	0.19	30 days	-	-	(34,786)	(2.38)	-
	Cal Hotel	Subsidiary	Purchase	180,110	0.16	1 month	-	-	(17,772)	(1.21)	-
	Tigerair Taiwan	Subsidiary	Sale	(313,019)	0.25	1 month	-	-	37,418	0.40	-
	China Pacific Laundry Services	Equity-method investee	Purchase	108,933	0.10	2 months	-	-	(19,804)	(1.35)	-

CHINA AIRLINES, LTD. AND INVESTEEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016**

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 377,970	5.76	\$ -	-	\$ 208,856	\$ -
Mandarin Airlines	China Airlines	Parent company	227,693	0.36	-	-	18,230	-
China Pacific Catering Services	China Airlines	Parent company	411,698	3.85	-	-	265,889	-
Taoyuan International Airport Service	China Airlines	Parent company	323,510	3.63	-	-	323,510	-

Note: Transactions with subsidiaries have been written off in consolidated financial report.

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Shares	Balance as of December 31, 2016 Percentage of Ownership	Carrying Value	Net Income (Loss) of Investee	Investment Income (Loss)	Note
				December 31, 2016	December 31, 2015						
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	\$ 1,500,000	\$ 1,500,000	150,000,000	100.00	\$ 1,529,375	\$ 18,551	18,551	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,125,057	(227,787)	(215,240)	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,261,894	25,537	13,791	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US\$ 26,145	US\$ 26,145	2,614,500	100.00	1,244,328	29,135	29,135	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	638,980	407,920	208,039	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	649,189	277,247	135,850	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	450,305	(47,074)	(47,074)	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	438,502	186,479	175,169	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	515,051	255,141	51,028	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	279,176	448,224	109,815	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	231,316	116,081	54,966	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	267,371	211,499	75,674	-
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	387,375	73,500	73,500	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	214,745	150,654	18,633,937	26.00	257,928	100,522	26,136	Note 5
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	167,048	39,324	21,628	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	71,534	19,412	19,037	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,464	304	304	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	30,961	5,139	2,621	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,418	6,783	1,695	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US\$ 1	US\$ 1	1,000	100.00	32	-	-	-
Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US\$ 1	US\$ 1	1,000	100.00	32	-	-	-	
Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,600,000	1,600,000	160,000,000	80.00	362,861	(778,025)	(622,420)	-	
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	160,000	60,000	16,000,000	100.00	110,128	(31,603)	(31,603)	-	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	45,358	(778,025)	(77,803)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	3,574	469,755	1.08	5,261	116,081	1,003	Note 4
Cal-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 3,329	HK\$ 3,329	1,050,000	35.00	42,948	16,049	5,617	-
	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	349,211	19,581	19,581	Note 3

Note 1: Adopted the treasury stock method in recognizing investment income or loss.

Note 2: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 3: The Company does not issue stocks because it is a limited company.

Note 4: Have acquired non-controlling interests of Taiwan Airport Services from September 2015.

Note 5: On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common shares for cash and with the date of right issues granted on was December 25, 2015. The board of Company has reached an agreement to purchase \$64,091 thousand which had been remitted to SPL by December 31, 2015. SPL completed the registration of this subscription on January 22, 2016.

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars/Renminbi/U.S. Dollars, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,042,154 (RMB 224,480)	Indirect (Note 1)	\$ 135,031 (US\$ 4,186)	\$ -	\$ 41,831 (US\$ 1,297)	\$ 93,200 (US\$ 2,889)	\$ 48,972 (RMB 10,549)	14.00	\$ 7,153 (RMB 1,477)	\$ 234,169 (RMB 50,440)	\$ 90,379 (US\$ 2,802) (Note 4)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,995 (RMB 14,000)	Indirect (Note 1)	62,821 (US\$ 1,947)	-	18,258 (US\$ 566)	44,563 (US\$ 1,381)	84,691 (RMB 18,242)	14.00	12,371 (RMB 2,554)	115,330 (RMB 24,842)	28,236 (US\$ 875) (Note 4)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,190,000 (US\$ 36,890)	Indirect (Note 1)	69,394 (US\$ 2,151)	-	-	69,394 (US\$ 2,151)	-	5.83	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	376,226 (US\$ 11,663)	Indirect (Note 1)	20,516 (US\$ 636)	-	-	20,516 (US\$ 636)	-	5.45	-	20,157 (RMB 4,342)	-
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	100,000 (US\$ 3,100)	Indirect (Note 2)	8,000 (US\$ 248)	-	-	8,000 (US\$ 248)	-	8.00	-	-	-
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	32,258 (US\$ 1,000)	Indirect (Notes 3 and 8)	5,532 (US\$ 172)	-	-	5,532 (US\$ 172)	-	-	-	-	-

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
\$241,194 (US\$7,477)	\$464,423 (Note 5)	\$34,720,319 (Note 6)

(Continued)

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2016	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,042,154 (RMB 224,480)	Indirect (Note 7)	\$ 132,516 (US\$ 4,108)	\$ -	\$ -	\$ 132,516 (US\$ 4,108)	\$ 48,972 (RMB 10,549)	14.00	\$ 7,154 (RMB 1,477)	\$ 232,872 (RMB 50,160)	\$ 122,785 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,995 (RMB 14,000)	Indirect (Note 7)	62,161 (US\$ 1,927)	-	-	62,161 (US\$ 1,927)	84,691 (RMB 18,242)	14.00	12,371 (RMB 2,554)	115,558 (RMB 24,891)	45,374 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$191,778 (US\$5,945)	\$191,778 (US\$5,945)	\$293,115 (Note 6)

Note 1: China Airlines, Ltd. the "Company" invested in Cal-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: The Company invested in China Aircraft Services, which in turn, invested in a company located in mainland China.

Note 3: Cal-Asia Investment invested in Eastern United International Logistics (Holdings), which in turn, invested in a company located in mainland China.

Note 4: The inward remittance of earnings in 2016 amounted to US\$2,801,749 and US\$875,330.

Note 5: The amount comprised US\$12,655,978, RMB4,200,000 and NT\$36,666,667.

Note 6: The limit stated in the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjustment Rule," is the larger of the Company's net asset value or 60% of the consolidated net asset value.

Note 7: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 8: Eastern United International Logistics (Holdings) Ltd. had disposed of the investee company, and the Company was preparing for a declaration to Investment Commission.

Note 9: The RMB and U.S. dollar amounts of assets are translated at year-end rates, and those of gains (losses) are translated at the average of the year-end rates for the reporting period.

(Concluded)

China Airlines Co.,Ltd.

Chairman : Ho,Nuan-Hsuan



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