Stock Code:2610

CHINA AIRLINES
2017 Annual Shareholders' Meeting

Agenda Handbook

Time:: June 22, 2017 (Thu.), 9:00 AM

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

(Summary Translation)

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

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Meeting Agenda

China Airlines 2017 Annual Shareholders' Meeting Agenda

Time: June 22, 2017 (Thu.), 9:00 AM

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

1. **Presentation of Report to Shareholders and Meeting Called to Order**
2. **Chairman's Address**
3. **Matters to Report**
   (1) Business Report for the year 2016
   (2) Audit Committee's review report for the year 2016
   (3) Proposal for distribution of 2016 employees' compensation
   (4) Status report on the Unsecured Ordinary Corporate Bonds of NT$10 billion issued in 2016
4. **Matters for Acknowledgement**
   (1) Acknowledgement of Business Report and Financial Statements for the year 2016
   (2) Acknowledgement of the Proposal for 2016 Deficit Compensation
5. **Matters for Discussion**
   (1) Amendment to the "Procedures Governing the Acquisition and Disposal of Assets"
   (2) Amendment to the "Operational Procedures for Endorsements/Guarantees"
   (3) Proposal to release non-compete restrictions on Chairman NUAN-HSUAN HO and Director SU-CHIEN HSIEH
6. **Questions and Motions**
7. **Meeting Adjournment**

Matters to Report

Agenda Item #1

Description: Business Report for the year 2016.To be reviewed by all parties.

Details: Please refer to pages3-6 of this handbook.

2016 Business Report

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.

I. Results of the business strategy

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. 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 737-800passenger jets were sold.

2. 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.

3. 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.

4. 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.

5. 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.

II. Business cash flow budget and profitability analysis

1. 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, downNT$5.3billion from last year.

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

2. 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.

3. Profitability

Return on assets 0.75%

Return on equity 1.00%

After-tax profit margin 0.45%

After-tax earnings per share 0.10 元

III. 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.

Looking forward to 2017, in the face of increasing limitations on Mainland Chinese customers, the increasing competition in Japan and Korea, and the possibility of rising gas prices, China Airlines will come together to overcome the hurdles in the market and promise safety and profits to our stakeholder in order to lead the company into a new era. Everyone at China Airlines will work together to improve our image, earn the respect of the global community, and create a better future for China Airlines.

Chairman:: HO, NUAN-HSUAN

Manager:: HSIEH, SU-CHIEN

Accounting Supervisor:: CHEN, I-CHIEH

Agenda Item #2

Description: Audit Committee's review report for the year 2016.To be reviewed by all parties.

Details: Please refer to page 8 of this handbook.

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

Agenda Item #3

Description: Proposal for distribution of 2016 employees' compensation. To be reviewed by all parties.

Details:

1. In accordance with Article 25 of the Articles of Incorporation, in the case of a profitable fiscal year, the Company is to allocate no less than 3% to employee compensation.
2. For 2016, the Company did not set aside pre-tax revenue of NT$1.942 billion for employee compensation, but rather paid NT$0.382 billion in cash compensation to its employees.
3. This item was approved during the 9th session of the 20th Meeting of the Board.

Agenda Item #4

Description: Status report on the Unsecured Ordinary Corporate Bonds of NT$10 billion issued in 2016

Details:

1. In order to support operations development, repay loans, and stabilize future mid- to long-term costs, China Airlines issued naked debentures in 2016 after it was decided in the 5th convention of the 20th Board of Directors meeting. The total value of the debentures did not exceed NT$10 billion and was issued in installments.
2. The 2016 naked debentures were issued in installments and raised a total of NT$10 billion; the table below details the issuance of the debentures.

Item	First issuance in 2016	Second issuance in 2016
Date of issue	May 26, 2016	September 27, 2016
Issued total	NT$5 billion	NT$5 billion
Issued price	100% of face value	100% of face value
Period of issue	5 years	5 years
Coupon rate	Fixed interest rate of 1.19% per annum	Fixed interest rate of 1.08% per annum
Method of repayment	50% repaid in the fourth and fifth years	50% repaid in the fourth and fifth years
Planned use of funds	Fully carried out in 3Q 2016	Fully carried out in 4Q 2016

Matters for Acknowledgement

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

Description: Acknowledgement of Business Report and Financial Statements for the year 2016

Details:

1. The Company's 2016 annual financial statements (including Balance Sheet, Consolidated Income Statement, and Changes in Equity and Cash Flow Statement) have been jointly audited by Deloitte CPAs Chen-Hsiu Yang and Li-Chi Chen and have been approved and documented during the 10th session of the 20th Meeting of the Board.
2. For 2016 Annual Business Report, please refer to pages 3-6 of this handbook; for the CPA Audit Report and the financial statements referred to above, please see pages 12-36 of this handbook.

Resolution:

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 December31, 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 December31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis for Opinion

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

Key Audit Matters

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

<u>Deferred Income Tax Assets</u>

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

December 31, 2016, the Company recognized tax losses as deferred tax assets, in New Taiwan dollars (NT$), in the amount ofNT$2,322,951 thousand. Refer to Notes 4, 5 and 27 in the accompanying financial statement for the related detailed information.
The difference between the amount representative of the Company's financial position and its tax base are material to the financial statements as a whole in the aviation industry. Moreover, deferred tax assets arising from tax losses are dependent on future table income and the reversal of existing taxable temporary differences which involve management's judgment when assessing the realization of tax losses. As there is a significant level of judgment involved in valuing the deferred tax assets, we have deemed this to be a key audit matter.

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

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

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

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

The board of directors of the Company resolved to dispose of several aircrafts. According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", impairment losses from the disposal of aircrafts were recognized as the differences between the expected transaction value and the carrying amount of the aircrafts, and then the aircrafts were reclassified as non-current assets held for sale. As of December 31, 2016, the carrying amount of the non-current assets held for sale was NT$185,100 thousand. Refer to Notes 4, 5 and 12 in the accompanying financial statements for the related detailed information.

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

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

1. Conducting an assessment on the transaction value by obtaining reference prices from authoritative publications recognized within the aviation industry, historical selling prices of similar types of aircrafts, and the suggested price proposed by a broker and observing the subsequent transactions.

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

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

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

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

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

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte &Touche
Taipei, Taiwan
Republic of China

March 30, 2017

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail. Also, as stated in Note X to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA AIRLINES, LTD.

BALANCE SHEETS
DECEMBER31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	$ 19,734,590	9	$ 18,507,429	9
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	1,200	-	163,847	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 30)	51,403	-	45,744	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 30)	7,825,504	4	7,207,984	4
Notes and accounts - related parties (Notes 30 and 31)	439,509	-	546,141	-
Other receivables	833,754	1	762,988	-
Current tax assets (Notes 4 and 27)	21,652	-	7,124	-
Inventories, net (Notes 4 and 11)	8,338,980	4	8,203,921	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	185,100	-	670,455	-
Other current assets (Note 17)	2,476,800	1	1,788,406	1
Total current assets	39,908,492	19	37,904,039	18
NONCURRENT ASSETS				
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 30)	-	-	1,710	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 30)	3,268	-	11,216	-
Financial assets carried at cost - noncurrent (Notes 9 and 30)	120,200	-	126,125	-
Investments accounted for by the equity method (Notes 4 and 13)	10,051,325	5	11,007,620	5
Property, plant and equipment (Notes 4, 5, 14 and 32)	129,121,632	61	118,446,472	57
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	1,115,101	-	990,307	1
Deferred tax assets (Notes 4, 5 and 27)	5,749,714	3	6,690,802	3
Other noncurrent assets (Notes 17, 20, 30, 32 and 33)	23,422,263	11	31,917,111	15
Total noncurrent assets	171,630,951	81	171,238,811	82
TOTAL	$ 211,539,443	100	$ 209,142,850	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bills payable (Note 18)	$ 900,000	1	$ -	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 30)	20,854	-	301,912	-
Notes and accounts payable (Note 30)	638,876	-	1,000,050	-
Notes and accounts payable - related parties (Notes 30 and 31)	1,347,007	1	1,347,675	1
Other payables (Notes 21 and 26)	9,634,022	5	10,722,052	5
Current tax liabilities (Notes 4 and 27)	2	-	10,572	-
Deferred revenue - current (Notes 4, 5 and 22)	13,404,227	6	11,951,128	6
Bonds payable and put option of convertible bonds - current (Notes 4, 19, 25, 30 and 31)	2,700,000	1	4,944,106	2
Loans and debts - current (Notes 18, 30 and 32)	31,816,140	15	29,683,086	14
Capital lease obligations - current (Notes 4, 20, 30 and 32)	1,254,000	1	1,428,467	1
Other current liabilities (Note 30)	2,624,677	1	3,336,477	2
Total current liabilities	64,339,805	31	64,725,525	31
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 30)	2,775	-	11,291	-
Bonds payable - noncurrent (Notes 4, 19, 25, 30 and 31)	19,838,044	9	10,900,000	5
Loans and debts - noncurrent (Notes 18, 30 and 32)	52,833,478	25	53,849,371	26
Provisions - noncurrent (Notes 4, 5 and 23)	6,770,951	3	5,033,257	2
Deferred tax liabilities (Notes 4 and 27)	114,772	-	172,451	-
Capital lease obligations - noncurrent (Notes 4, 20, 30 and 32)	3,562,000	2	5,079,133	3
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,808,903	1	1,863,929	1
Net defined benefit liabilities - noncurrent (Notes 4, 5 and 24)	6,217,346	3	8,965,529	4
Other noncurrent liabilities (Note 30)	267,552	-	272,468	-
Total noncurrent liabilities	91,415,821	43	86,147,429	41
Total liabilities	155,755,626	74	150,872,954	72
EQUITY (Notes 19 and 25)				
Capital stock	54,708,901	26	54,708,901	26
Capital surplus	799,932	-	798,415	1
Retained earnings				
Legal reserve	287,224	-	-	-
Special reserve	76,486	-	-	-
Unappropriated retained earnings (accumulated deficit)	(157,618)	-	2,872,235	1
Total retained earnings	206,092	-	2,872,235	1
Other equity	112,264	-	(66,283)	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	55,783,817	26	58,269,896	28
TOTAL	$ 211,539,443	100	$ 209,142,850	100

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

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

Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(234,797)	-	(81,484)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	100,195	-	92,088	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	(80,104)	-	67,886	-
Cash flow hedges (Notes 4 and 25)	300,109	-	2,153,292	1
Share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(4,057)	-	(6,397)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 25 and 27)	(37,401)	-	(375,366)	-
Other comprehensive income (loss) for the year, net of income tax	(545,437)	-	1,308,328	1
TOTAL COMPREHENSIVE GAIN (LOSS) FOR THE YEAR	$ 26,103	-	$ 7,072,042	5
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic	$ 0.10		$ 1.06	
Diluted	$ 0.10		$ 1.00	

CHINA AIRLINES, LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity				
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total Equity
BALANCE AT JANUARY 1, 2015	$ 52,491,666	$ 1,992,415	$ -	$ -	$ (3,870,736)	$ 99,852	$ 4,015	$ (2,009,565)	$ (43,372)	$ 48,664,275
Compensation of deficit - capital surplus	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	64	-	-	-	-	-	-	-	64
Convertible bonds converted to ordinary 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 for the year ended December 31, 2015, net of income tax	-	-	-	-	(531,087)	58,107	(2,260)	1,783,568	-	1,308,328
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	1,783,568	-	7,072,042
BALANCE AT DECEMBER 31, 2015	54,708,901	798,415	-	-	2,872,235	157,959	1,755	(225,997)	(43,372)	58,269,896
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)
Appropriation of 2015 the earning										
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-
Cash dividends - $0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)
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 for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103
BALANCE AT DECEMBER 31, 2016	$ 54,708,901	$ 799,932	$ 287,224	$ 76,486	$ (157,618)	$ 78,564	$ 1,714	$ 31,986	$ (43,372)	$ 55,783,817

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

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:

<u>Deferred Income Tax Assets</u>

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.

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

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

<u>Notice to Readers</u>

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings per Share)

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

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 Earnings per Share)

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,879,851	$ 7,134,885
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	17,545,523	17,261,774
Amortization expenses	147,486	70,040
Bad-debt expense	83,657	49,458
Net loss (gain) on fair value change of financial assets and liabilities held for trading	35,678	(150,871)
Interest income	(242,801)	(466,923)
Dividend income	(59,099)	(1,884,052)
Share of profit of associates and joint ventures	(536,986)	(516,140)
Loss on disposal of financial assets measured at cost	346	-
Gain on disposal of property, plant and equipment and noncurrent 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 derivate financial assets for hedging	13,096	-
Decrease (increase) in notes and accounts receivable	(731,012)	1,770,746
Increase in other receivables	(15,595)	(205,127)
Increase in inventories	(358,861)	(1,248,012)
Increase in other current assets	(293,137)	(1,252,816)
(Decrease) increase in notes and accounts payable	(514,807)	828,156
(Decrease) increase in other payables	(1,166,447)	569,765
Increase in deferred revenue	1,651,689	2,006,907
Decrease in provisions	(1,393,565)	(237,716)
Increase in other current liabilities	399,500	512,938

Decrease in accrued pension liabilities	(3,532,023)	(296,385)
Increase (decrease) in other liabilities	22,045	(14,555)
Cash generated from operations	18,265,776	30,958,146
Interest received	239,461	487,009
Dividends received	513,203	2,382,066
Interest paid	(1,195,427)	(1,797,212)
Income tax paid	(186,641)	(239,316)
Net cash generated from operating activities	17,636,372	31,790,693
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	$ 63	$ -
Proceeds on share redemption of financial assets measured at cost	-	245,242
Proceeds of the sale of financial assets measured at cost	5,579	-
Payments to acquire financial assets for hedging	-	(13,096)
Acquisition of associates	-	(64,091)
Proceeds from disposal of noncurrent assets held for sale	384,285	-
Payment for property, plant and equipment	(9,906,807)	(6,711,363)
Proceeds from disposal of property, plant and equipment	519,489	20,914
Increase in refundable deposits	(250,177)	(915,853)
Decrease in refundable deposits	333,973	780,503
Increase in prepayments for equipment	(17,754,915)	(13,472,830)
Refund in prepayments for aircrafts	5,693,791	10,186,049
Increase in computer software cost	(277,235)	(408,721)
Decrease (increase) in restricted assets	230,338	(88,332)
Net cash used in investing activities	(21,021,616)	(10,441,578)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(35,000)	(4,190,523)
(Decrease) increase in short-term bills payable	890,005	(2,078,113)
Proceeds from issue of bonds payable	9,700,000	-
Exercise the put option of bonds payable	(994,705)	-
Repayments of bonds payable	(2,400,000)	(8,585,000)
Proceeds of long-term debts	35,241,000	16,626,343
Repayments of long-term debts and capital lease obligations	(35,501,395)	(19,601,536)
Proceeds of guarantee deposits received	121,440	124,621
Refund of guarantee deposits received	(94,448)	(121,159)
Dividends paid to owners of the Company	(2,508,525)	-
Cash dividends paid to non-controlling interest	(201,886)	(157,053)
Acquisition of subsidiaries' shares	(8,084)	(3,574)
Net cash generated from (used in) financing activities	4,208,402	(17,985,994)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(47,046)	(340,187)

NET INCREASE IN CASH AND CASH EQUIVALENTS	776,112	3,022,934
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	23,491,085	20,468,151
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 24,267,197	$ 23,491,085

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

(Concluded)

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

Description: Acknowledgement of the Proposal for 2016 Deficit Compensation

Details:

1. Appropriation of the 2016 deficit will be in accordance with Article 228 of the Company Act.
2. Unappropriated retained earning at the beginning of 2016 was NT$0. After subtracting the changes in recognized affiliated enterprises using the equity method, NT$239,971,322, and retained earnings modified by the remeasurement of defined benefit plans, NT$489,186,659, the adjusted cumulative deficit was NT$729,157,981; adding the 2016 net profit after tax of NT$571,539,967 and turnover of special surplus reserve, NT$76,486,208, the final deficit was NT$81,131,806.
3. According to Article 239 of the Company Act, the legal reserve of NT$81,131,806 is used to make up the deficit and the cumulative deficit at the end of the year was NT$0.
4. Refer to the Appropriation of 2016 deficit table on page 38 of this handbook.
5. This plan was approved in the 10th convention of the 20th Board of Directors meeting.

Resolutio**n**::

China Airlines Ltd.

Appropriation of 2016 deficit

Unit: NT$

Items	Total
Unappropriated retained earnings(Beginning Balance)	$ 0
Change in retained earnings from investments in associates and joint ventures accounted for by using equity method	(239,971,322)
Remeasurement of defined benefit plans	(489,186,659)
Adjusted accumulated deficit	(729,157,981)
Add:2016 Net income after tax	571,539,967
Add: Reversal of Special Reserve	76,486,208
Accumulated deficit before compensation	(81,131,806)
Item used to compensating deficit:	
Legal reserves	81,131,806
Accumulated deficit (Ending Balance)	$0

Note: shareholder bonus not distributed this year.

Chairman:: HO, NUAN-HSUAN

Manager:: HSIEH, SU-CHIEN

Accounting Supervisor:: CHEN, I-CHIEH

Matters for Discussion

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

Description: Amendment to the "Procedures Governing the Acquisition and Disposal of Assets". To be determined by all parties.

Details:

1. In accordance with the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" promulgated by the Financial Supervisory Commission and amended as required by China Airlines.
2. For the amended and original Articles of Incorporation, Please refer to page 40 to 47 of this handbook.
3. This item was approved during the 7th session of the 20th Meeting of the Board.

Resolution:

China Airlines Ltd.
Amendments to the “Procedures for the Acquisition or Disposal of Assets”

Amended article	Original article	Details of amendments
Article 6 Units responsible for implementation: 1. The Corporate Development Office oversees long-term securities. The Finance Division oversees short-term securities. The Administration Division is responsible for real estate property. Assets other than securities investments and real estate property shall be overseen by the relevant departments. As prescribed by the competent authorities, information disclosure is the responsibility of the Finance Division. 2. (Removed).	Article 6 Units responsible for implementation: 1. Investment Development Management Division oversees long-term securities. Short-term securities investments are overseen by the Finance Division. The Administration Division is responsible for real property investment. Acquisition and disposal of assets other than securities investments and real property shall be overseen by the relevant department. As prescribed by the competent authorities, information disclosure is the responsibility of the Finance Division. 2. (Removed).	1. Amended the unit for overseeing long-term securities according to the company architecture. 2. Wording was modified.
Article 7 Merger, demerger, acquisition, or transfer of shares: 1. When planning to conduct a merger, demerger, acquisition, or transfer of shares, the Company shall engage a certified public accountant, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage. However, when the Company merges with a subsidiary company which it directly or indirectly owns 100% of distributed stocks or total capital, or when the Company	Article 7 Merger, demerger, acquisition, or transfer of shares: 1. When planning to conduct a merger, demerger, acquisition, or transfer of shares, the Company shall engage a certified public accountant, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage.	In accordance with Article 22 of the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and considering the mergers with or between subsidiaries which the Company own 100% in accordance with the “Business Mergers And Acquisitions Act,” the act is considered to be a reorganization of a single corporate group; thus, it should not involve a share exchange ratio or distribution of cash or other property to shareholders. As such, the addition loosened

Amended article	Original article	Details of amendments
merges subsidiary companies which it directly or indirectly owns 100% of distributed stocks or total capital, the Company may forgo the opinion of the reasonableness by the experts stated above. 2-8. (Removed).	2-8. (Removed).	the merger regulations so that the Company may forgo the expert opinion regarding the reasonableness of a share exchange ratio.
Article 8 Commissioning expert appraisal reports or opinions: 1. Appraisal report for acquisition or disposal of real property or equipment: In acquiring or disposing of real property or equipment where the transaction amount reaches 20% of the company's paid-in capital or in excess of NT$300 million, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report from a professional appraiser prior to the date of occurrence of the event and shall further comply with the following provisions: (Removed) 2. (Removed). 3. Acquisition or disposal of memberships or intangible assets: Where the company acquires or disposes of memberships or intangible assets and the transaction amount reaches 20% or more of paid-in capital or in excess of NT$300 million, the Company, unless transacting with a government agency, shall engage a certified public accountant prior to the date of occurrence of the event to	Article 8 Commissioning expert appraisal reports or opinions: 1. Appraisal report for acquisition or disposal of real property or equipment: In acquiring or disposing of real property or equipment where the transaction amount reaches 20% of the company's paid-in capital or in excess of NT$300 million, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report from a professional appraiser prior to the date of occurrence of the event and shall further comply with the following provisions: (Removed) 2. (Removed). 3. Acquisition or disposal of memberships or intangible assets: Where the company acquires or disposes of memberships or intangible assets and the transaction amount reaches 20% or more of paid-in capital or in excess of NT$300 million, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the	1. The wording for "government agency" was modified in accordance with Article 9 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies." 2. In accordance with Article 11 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies," as the possibility of price fixing is low when transacting with a government agency, this article was amended so that an expert appraisal report is not required when transacting with a with government agency for intangible assets.

Amended article	Original article	Details of amendments
render an opinion on the reasonableness of the transaction price; the certified public account shall comply with the provisions of Statement 4-6. (Removed).	reasonableness of the transaction price; the certified public account shall comply with the provisions of Statement 4-6. (Removed).	
Article 9 Related party transactions: 1. (Removed). 2. When the Company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the Company's total assets, or NT$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>repurchase</u> of domestic <u>securities investment trust enterprise</u> money market funds, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Board of Directors Board of Directors and recognized by the Audit Committee: (1)-(2) (Removed). (3)-(6) (Removed). (7) An appraisal report from a professional appraiser or a certified public accountant's opinion obtained in compliance with the preceding <u>Paragraph</u>. 3. (Removed). 4. When the Company acquires	Article 9 Related party transactions: 1. (Removed). 2. When the Company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the Company's total assets, or NT$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>redemption</u> of domestic money market funds, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Board of Directors and recognized by the Audit Committee: (1)-(2) (Removed). (3)-(6) (Removed). (7) An appraisal report from a professional appraiser or a certified public accountant's opinion obtained in compliance with the preceding <u>Article</u> 3 (Removed). 4.When the Company acquires	1. In accordance with Article 14 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies," the "domestic money market funds" stated in this article are money market funds defined by the "Securities Investment Trust and Consulting Act," permitted by the Financial Supervisory Commission, and issued by securities investment trust enterprises; thus, the wording was revised. 2. References to other articles and clauses were modified. 3. Amendments were made in accordance with Article 17 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and references to other articles and clauses were modified.

Amended article	Original article	Details of amendments
real property from a related party, unless the cost of the real property is appraised in accordance with the preceding Paragraph, it shall also engage a certified public accountant to check the appraisal and render a specific opinion. 5-6. (Removed). 7. Where the Company acquires real property from a related party and the results of appraisals conducted in accordance with Paragraph 3 of this article <u>and the preceding Paragraph</u> are uniformly lower than the transaction price, the following steps shall be taken: (1) A special reserve shall be set aside in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act against the difference between the real property transaction price and the appraised cost, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, Paragraph 1 of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in the other company. When the Company has set aside a	real property from a related party and appraises the cost of the real property in accordance with the previous Paragraph, it shall also engage a certified public accountant to check the appraisal and render a specific opinion. 5-6. (Removed). 7. Where the Company acquires real property from a related party and the results of appraisals conducted in accordance with Paragraph 3 of this article are uniformly lower than the transaction price, the following steps shall be taken: (1) A special reserve shall be set aside in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act against the difference between the real property transaction price and the appraised cost, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, Paragraph 1 of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in the other company. When the Company has set aside a	

Amended article	Original article	Details of amendments
special reserve under the preceding sentences, it may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased at a premium, or they have been disposed of, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the FSC has given its consent. (2)-(3). (Removed). 8-11. (Removed).	special reserve under the preceding sentences, it may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased at a premium, or they have been disposed of, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the FSC has given its consent. (2)-(3). (Removed). 8-11. (Removed).	
Article 11 Announcements, reporting, and disclosure of material information: 1. When the Company acquires or disposes of assets and the following circumstances apply, the Company shall publicly announce and report the relevant information on the competent authority's designated website in the appropriate format as prescribed by regulations within 2 days commencing immediately from the date of occurrence of the event: (1) Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of paid-in capital, 10% or	Article 11 Announcements, reporting, and disclosure of material information: 1. When the Company acquires or disposes of assets and the following circumstances apply, the Company shall publicly announce and report the relevant information on the competent authority's designated website in the appropriate format as prescribed by regulations within 2 days commencing immediately from the date of occurrence of the event: (1) Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of paid-in capital, 10% or	The following amendments were made in accordance with Article 30 if the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies": 1. The "domestic money market funds" stated in this article are money market funds defined by the "Securities Investment Trust and Consulting Act," permitted by the Financial Supervisory Commission, and issued by securities investment trust enterprises; thus, the wording was revised. 2. In consideration of larger companies, if the requirements for filing reports are low, reports will be filed

Amended article	Original article	Details of amendments
more of the Company's total assets, or NT $300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or repurchase of domestic securities investment trust enterprise money market funds. (2) Merger, demerger, acquisition, or transfer of shares. (3) The loss in derivatives reaches the upper loss limit, including in total or of an individual contract as regulated in the Company's Operational Procedures for Derivatives Trading. (4) Acquisition or disposal of assets that are equipment for business operation from or to a non-related party where the transaction amount reaches NT$1 billion or more. (5) Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction is NT$500 million or more.	more of the Company's total assets, or NT $300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds. (2) Merger, demerger, acquisition, or transfer of shares. (3) The loss in derivatives reaches the upper loss limit, including in total or of an individual contract as regulated in the Company's Operational Procedures for Derivatives Trading. (4) In addition to the provisions of the preceding (1) - (3), any transactions of assets, disposal of debts by financial institutions or investment in mainland China which have reach a transaction amount up to 20% of the Company's paid-in capital or more than NT$ 300 million. The following situations are not subject to this limit: 1. Trading of government bonds. 2. Trading bonds attached with repurchase and resell conditions or purchasing or redemption domestic money market funds.	too often, lessening the importance of information disclosure; thus, the requirements for filing reports for the acquisition or disposal of assets by a public company with a paid-in capital of NT$10 billion or more that are equipment for business that does not involve a related party in Paragraph 1 Subparagraph 1 Item 3 was changed from NT$500 million to NT$1 billion. This item was also moved to Paragraph 1 Subparagraph 4. 3. Paragraph 1 Subparagraph 1 Items 4 and 5 have been moved to Paragraph 1 Subparagraphs 4 and 5, respectively. 4. References to other articles and clauses were modified. 5. The specific time frame to correct errors or omissions in public announcements was defined.

Amended article	Original article	Details of amendments
(6) In addition to the provisions of the preceding (1) - (5), any transactions of assets, disposal of debts by financial institutions or investment in mainland China which have reach a transaction amount up to 20% of the Company's paid-in capital or more than NT$ 300 million. The following situations are not subject to this limit: 1. Trading of government bonds. 2. Trading bonds attached with repurchase and resell conditions or purchasing or repurchase of domestic securities investment trust enterprise money market funds. 2. The amount of transactions in the preceding Paragraph shall be calculated as follows: (1)-(4) (Removed). (5)Within the preceding year as used in this section refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Procedures need not be counted toward the transaction amount 3. (Removed). 4. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and is required to correct it, all the items shall be again publicly announced and reported in their entirety	3. Acquisition or disposal of such assets as equipment for business that does not involve a related party and the transaction amount is less than NT$500 million. 4. Acquisition of real property in the methods of contracted construction on self-owned land/leased land, co-construction & housing sharing, co-construction & profit sharing, and co-construction & housing distribution where the investment amount of less than NT$500 million. (The investment amount is based on Company estimates.) 2. The amount of transactions above shall be calculated as follows: (1)-(4) (Removed). (5)Within the preceding year as used in this section refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Procedures need not be counted toward the transaction amount 3. (Removed). 4. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and is required to correct it, all the items shall be again publicly announced and reported in their entirety	

Amended article	Original article	Details of amendments
within 2 days commencing immediately from the date that the Company becomes aware of the error or omission. 5-6. (Removed).	5-6. (Removed).	
Article 14 These Procedures were adopted on May 18, 1991 and the 9th revision was made on June 22, 2017. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.	Article 14 These Procedures were adopted on May 18, 1991 and the 8th revision was made on June 18, 2014. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.	The date and revision number were adjusted.

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

Description: Amendment to the “Operational Procedures for Endorsements/Guarantees”, to be determined by all parties

Details:

1. Response to Company organizational restructuring and prescribed practices to bring into line with revisions to the Company’s “Operational Procedures for Endorsements/Guarantees”.
2. For the amended and original Articles of Incorporation, please refer to pages 49 of this handbook.
3. This item was approved during the 11th session of the 20th Meeting of the Board.

Resolution:

China Airlines

Comparison Table: Amendments to the Operational Procedures for Endorsements/Guarantees

Revised Provisions	Current Provisions	Revision Notes
Article 7 Control Procedures for Endorsements/Guarantees Provided by Subsidiaries 1. (Removed). 2. Company subsidiaries shall compile a list of endorsements/guarantees provided to others over the previous month on or before the <u>3rd</u> day of each month and send it to the to the Finance Division. 3-5. (Removed).	Article 7 Control Procedures for Endorsements/Guarantees Provided by Subsidiaries 1. (Removed). 2. Company subsidiaries shall compile a list of endorsements/guarantees provided to others over the previous month on or before the <u>8th</u> day of each month and send it to <u>the Company's Investment Development Management Division to transfer to</u> the Finance Division. 3-5. (Removed).	Revisions based on Company organizational restructuring and prescribed practices.
Article 12 These Procedures were adopted on May 25, 1990 and the <u>10th</u> revision was made on June <u>22</u>, <u>2017</u>. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.	Article 12 These Procedures were adopted on May 25, 1990 and the <u>9th</u> revision was made on June <u>26</u>, <u>2015</u>. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.	Amendment dates and number of revisions subject to change.

Agenda Item #3 (Proposed by the Board of Directors)

Description: Proposal to release non-compete restrictions on Chairman NUAN-HSUAN HO and Director SU-CHIEN HSIEH, to be determined by all parties.

Details:

1. Mr. Nuan-Hsuan Ho and Mr. Su-Chien Hsieh, two of the Company's corporate shareholders, have been appointed legal representatives of the China Aviation Development Foundation. They also serve on the 20th Board of Directors.
2. In accordance with Article 209 of the corporate charter, when a Director's actions for himself or others fall within the Company's business scope, he shall explain the importance of said actions to the Board of Shareholders and obtain its approval. In response to operating needs, Chairman Nuan-hsuan Ho and Director Su-Chien Hsieh also serve as Directors of the company's investment ventures, therein engaging in business similar or equivalent to that within the Company's business scope. Because they can do so without jeopardizing the Company and can also act in the interest of the Company, it is respectfully requested that the Board of Shareholders release non-compete restrictions on Director Yu-Hern Chang.
3. Intention to lift the restrictions on Chairman Nuan-hsuan Ho and Director Su-Chien Hsieh's non-compete agreement as follows:

Name & Title	Positions Held
Chairman Nuan-hsuan Ho	Chairman CAL Park Co., Ltd. Chairman, CAL Hotel Co., Ltd. Chairman, CAL-Asia Investment Inc. Chairman, CAL-Dynasty International, Inc. Vice Chairman China Pacific Catering Services Director, China Aviation Development Foundation
Director Su-Chien Hsieh	Chairman, Mandarin Airlines, Ltd. Chairman Taiwan Air Cargo Terminal Ltd General Manager & Director, CAL Park Co., Ltd. Director, CAL Hotel Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, Cal-Asia Investment Director, Dynasty Properties Co., Ltd. Director, CAL-Dynasty International, Inc. Director, China Aviation Development Foundation

4. This item was approved during the 7th and 11th sessions of the 20th Meeting of the Board.

Resolution:

Questions and Motions

Questions and Motions

Appendices

Appendix 1

China Airlines Ltd.
Rules of Procedure for Shareholders' Meetings

Formulated and implemented after approval by the 3rd Extraordinary Shareholders' Meeting on December 12, 1991
Amended and approved by the Shareholders' Meeting on June 29, 2010
Amended and approved by the Shareholders' Meeting on June 15, 2012
Amended and approved by the Shareholders' Meeting on June 26, 2015

Article 1

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

Article 2

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

Article 3

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

Article 4

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

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

After a proxy form has been delivered to the Company, if the shareholder intends to attend the meeting in person or to exercise voting rights by correspondence or electronically, a written notice of proxy cancellation shall be submitted to the Company no later than2 business days prior to the meeting date. If the cancellation notice is submitted after that time, votes cast at the meeting by the proxy shall prevail.

Article 5

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

Article 6

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

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

Article 7

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

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

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

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

Article 8

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

Article 9

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

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

Article 10

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

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

Article 11

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

Article 12

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

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

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

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

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

Article 13

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

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

Article 14

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

Article 15

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

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

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

Article 16

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

Article 17

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

Article 18

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

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

Article 19

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

Appendix 2

CHINA AIRLINES LTD.
ARTICLES OF INCORPORATION

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

Chapter I General Provisions
Article 1

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

Article 2

The Company shall conduct the following businesses:

1. G501011 Civil Aviation Transport
2. G501020 Civil Aviation Agency
3. G502011 Aviation
4. G602011Airport Ground Services
5. G605011Sky Catering
6. G801010 Warehousing & Storage
7. F114070 Aircraft & Parts Wholesaling
8. F214070 Aircraft & Parts Retailing
9. I301010 Software Design Services
10. I301020 Data Processing Services
11. I301030 Digital Information Supply Services
12. J201051 Civilian Aviation Personnel Training
13. JA01010Automotive Repair & Maintenance
14. JA02990Other Repair Shops
15. ZZ99999 All businesses that are not prohibited or restricted by law, except those subject to special approval.
16.

Article 2-1

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

Article 2-2

(Deleted)

Article 3

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

Article 4

(Deleted)

Chapter II Shares

Article 5

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

Article 6

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

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

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

Article 7

(Deleted)

Article 8

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

Article 9

Registration of a share assignment shall not be made within sixty (60) days prior to a convening date of a regular shareholders’ meeting, or within thirty (30) days prior to a convening date of a special shareholders’ meeting, or within five (5) days prior to the record date fixed by the Company for distribution of dividends, bonuses, or other benefits.

Chapter III Shareholders’ Meetings

Article 10

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

Article 11

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

Article 12

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

Article 13

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

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

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

Article 14

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

Article 15

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

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

Chapter IV Directors and Managers

Article 16

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

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

Article 16-1

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

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

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

Article 16-2

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

Article 17

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

Article 18

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

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

Article 19

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

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

Article 19-1

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

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

Article 20

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

Article 21

(Deleted)

Article 22

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

Article 23

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

Chapter V Accounting

Article 24

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

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

Article 25

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

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

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

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

Chapter VI Supplemental Provisions

Article 26

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

Appendix 3

China Airlines Ltd.

Procedures Governing the Acquisition and Disposal of Assets

Amended and approved by the Shareholders' Meeting on June 18, 2014

Article 1 Purpose and legal basis:

These Procedures have been formulated to provide guidelines for the Company when acquiring or disposing of assets and are based on the content of Article 36-1 of the Securities and Exchange Act and other related laws and regulations.

Article 2 Scope: For the purpose of these Procedures, assets refer to the following:

1. Investments such as stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depository receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.
2. Real Property (including land, houses and buildings, investment property, rights to use land) and equipment.
3. Memberships.
4. Patents, copyrights, trademarks, franchise rights, and other intangible assets.
5. Derivatives.
6. Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with law.
7. Other major assets.

Article 3 Terms used in these Procedures are defined as follows:

1. Date of occurrence: In principle, this refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, date of Board of Directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction (whichever date is earlier); provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.
2. Related party or subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
3. Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.

4. Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.
5. Assets acquired or disposed through mergers, demergers, acquisitions, or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or to transfer of shares from another company through issuance of new shares of its own as the consideration therefore (hereinafter "transfer of shares") under Article 156, Paragraph 8 of the Company Act.
6. Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.
7. Total assets: For the calculation of 10% of total assets under these Procedures, the total assets stated in the most recent parent company-only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used.

Article 4 Appraisal and operating procedures:

1. Regarding the appraisal of assets to be acquired or disposed of, if said assets are flight equipment, real property, or other assets, the department utilizing or responsible for the assets shall formulate an appraisal plan. The Finance Division shall implement and oversee this plan. For marketable securities, the units responsible for implementation shall implement after completion of a feasibility assessment.
2. When the Company engages in derivatives transactions, it shall follow the Company’s Operational Procedures for Derivatives Trading. For the acquisition and disposal of other assets, the Company shall follow the operational procedures formulated by the responsible department mentioned in the above paragraph, which will be executed after approval by the responsible personnel, to properly implement the Company’s internal control system.

Article 5 Procedures for determining transaction terms and conditions:

1. Any acquisition or disposal of assets by the Company shall follow all related procedures and regulations, and shall only be executed after approval by responsible personnel.

2. Any procedure for the acquisition or disposal of assets that falls under the circumstances outlined in Article 185 of the Company Act shall first be approved by the Shareholders' Meeting.
3. Means of price determination and supporting reference materials for assets should follow the regulations below:
    (1) The price for marketable securities acquired or disposed of on a centralized securities exchange market or over-the-counter securities exchange shall be determined by the current stock or bond price.
    (2) For the price of marketable securities not acquired or disposed of on a centralized securities exchange market or over-the-counter securities exchange, the net asset value, profitability, future development potential, market interest rates, bond coupon rate, and credit worthiness of the debtor shall be taken into account along with the most recent transaction price.
    (3) For the acquisition or disposal of real property or other assets, the price shall be set based on the publicly announced current value, current assessed value, actual transaction price of neighboring real property, or the supplier's quoted price.
4. With respect to the Company's acquisition or disposal of assets that are subject to the approval of the Board of Directors as required by these Procedures or other laws or regulations, if a director expresses dissent, which is recorded or is contained in the minutes or a written statement, the company shall submit the director's dissenting opinion to the Audit Committee. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors meeting. Any transaction involving major assets or derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution. If approval of more than half of all Audit Committee members as required in the preceding sentence is not obtained, the Procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.

Article 6 Units responsible for implementation:

1. Investment Development Management Division oversees long-term securities. Short-term securities investments are overseen by the Finance Division. The Administration Division is responsible for real property investment. Acquisition and disposal of assets other than securities investments and real property shall be overseen by the relevant department. As prescribed by the competent authorities, information disclosure is the responsibility of the Finance Division.
2. When the Company and any subsidiaries that are not domestic public companies acquire or dispose of assets that require public reporting, the unit responsible for the implementation shall review and include all relevant information on the actual date of occurrence and deliver to the Finance

Division for public announcement, reporting, and disclosure of material information.

Article 7 Merger, demerger, acquisition, or transfer of shares:

1. When planning to conduct a merger, demerger, acquisition, or transfer of shares, the Company shall engage a certified public accountant, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage.
2. The Company shall prepare a public report for shareholders detailing the important content of the agreement and related matters of the merger, demerger, or acquisition before the Shareholders' Meeting, and then deliver it to shareholders together with expert opinions as required in the preceding paragraph for reference by shareholders for the approval of the merger, demerger or acquisition. This restriction shall not apply, however, where there are other provisions of law that exempt a company from convening a Shareholders' Meeting to approve the merger, demerger or acquisition. Moreover, where the Shareholders' Meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the Shareholders' Meeting, the companies participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next Shareholders' Meeting.
3. When conducting a merger, demerger, acquisition, or transfer of shares, the Company shall follow the below regulations for voting, information preservation, and public announcement:
   (1) Unless another law provides for otherwise or the competent authority is notified in advance of extraordinary circumstances and grants consent, the companies participating in a merger, demerger, or acquisition shall convene a Board of Directors meeting and Shareholders' Meeting on the same day to resolve matters relevant to the merger, demerger, or acquisition. When participating in a transfer of shares, the companies shall call a Board of Directors meeting on the same day.
   (2) When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for 5 years for reference. Within 2 days commencing immediately from the date of passage of a resolution by the Board of Directors, the Company shall report the information set out in Subparagraphs 1 and 2 of the following paragraph to the competent authorities for recordation in the prescribed format via the Internet-based information system.
      1. Basic identification data for personnel: includes occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the

planning or implementation of any merger, demerger, acquisition, or transfer shares prior to disclosure of the information.

2. Dates of material events: includes the dates of the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a Board of Directors meeting.
3. Important documents and minutes: includes merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of Board of Directors meetings.

(3) Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the latter is required to abide by the provisions of (2) above.

4. Every person participating in, or privy to the plan for merger, demerger, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any stock or other equity security of any company related to the plan for merger, demerger, acquisition, or transfer of shares.
5. The Company may not arbitrarily alter the share exchange ratio or acquisition price unless under the below-listed circumstances, and shall stipulate the circumstances permitting alteration in the contract for the merger, demerger, acquisition, or transfer of shares:

(1) Cash capital increase, issuance of convertible corporate bonds, or the issuance of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, or other equity-based securities.

(2) An action, such as a disposal of major assets, which affects the company's financial operations.

(3) An event, such as a major disaster or major change in technology, which affects shareholder equity or share price.

(4)An adjustment where any of the companies participating in the merger, demerger, acquisition, or transfer of shares, legally buys back treasury stock.

(5)A change in the entities or number of entities participating in the merger, demerger, acquisition, or transfer of shares.

(6)Other terms/conditions that the contract stipulates may be altered and that have been publicly disclosed.

6. The following matters, in addition to the related rights and obligations, shall be noted in the contract for participation in a merger, demerger, acquisition or transfer of shares:

(1) Handling breach of contract.

(2) Principles for the handling of equity-type securities previously issued or treasury stock previously bought back by any company that is extinguished in a merger or that is demerged.

(3) The amount of treasury stock that participating companies are permitted under law to buy back after the record date of calculation of the share exchange ratio, and the principles for handling thereof.

(4)The manner of handling changes in the entities or number of entities.

(5)Preliminary progress schedule for plan execution, and anticipated completion date.

(6)Scheduled date for convening the legally mandated Shareholders' Meeting if the plan exceeds the deadline without completion, and relevant procedures.

7. After public disclosure of the information, if any company participating in the merger, demerger, acquisition, or share transfer intends further to carry out a merger, demerger, acquisition, or share transfer with another company, all of the participating companies shall carry out anew the procedures or legal actions that had originally been completed toward the merger, demerger, acquisition, or share transfer; except that where the number of participating companies is decreased and a participating company's Shareholders' Meeting has adopted a resolution authorizing the Board of Directors to alter the limits of authority, such participating company may be exempted from calling another Shareholders' Meeting to resolve the matter anew.
8. Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the Company shall sign an agreement with the non-public company whereby the latter is required to abide by Paragraphs 3, 4, and 7 of this Article.

Article 8 Commissioning expert appraisal reports or opinions:

1. Appraisal report for acquisition or disposal of real property or equipment: In acquiring or disposing of real property or equipment where the transaction amount reaches 20% of the company's paid-in capital or in excess of NT$300 million, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report from a professional appraiser prior to the date of occurrence of the event and shall further comply with the following provisions:

(1)Where due to special circumstances, it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the Board of Directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.

(2)Where the transaction amount is in excess of NT$1 billion, appraisals from two or more professional appraisers shall be obtained.

(3)Where any one of the following circumstances applies with respect to the professional appraiser's results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:

1. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
2. The discrepancy between the appraisal results of two or more professional appraisers is 10% or more of the transaction amount.

(4) No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is applied and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.

2.Certified public accountant opinion regarding acquisition or disposal of securities: The Company, when acquiring or disposing of securities shall, prior to the date of occurrence, obtain financial statements of the issuing company for the most recent period, certified or reviewed by a certified public accountant, for reference in appraising the transaction price. If the dollar amount of the transaction is 20% or more of the company's paid-in capital or in excess of NT$300 million, the company shall additionally engage a certified public accountant prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price. This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided for by regulations of the competent authority.

3. Acquisition or disposal of memberships or intangible assets: Where the company acquires or disposes of memberships or intangible assets and the transaction amount reaches 20% or more of paid-in capital or in excess of NT$300 million, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the certified public account shall comply with the provisions of Statement of Auditing Standards No. 20 published by ARDF.

4. Should the Company acquire or dispose of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or opinion of a certified public accountant.

5. Professional appraisers and their officers, certified public accounts, attorneys, and securities underwriters that provide the Company with appraisal reports, certified public accountants’ opinions, attorneys’ opinions,

or securities underwriters' opinions shall not be a related party of any party to the transaction.

6. Calculation of the transaction price shall be performed in accordance with Article 11, Paragraph 1, Subparagraph 2, but does not need to be added in for situations where a professional appraisal or certified public accountant opinion is obtained in accordance with these Procedures.

Article 9 Related party transactions:

1. When the Company engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring that these Procedures are followed and necessary resolutions are adopted and the reasonableness of the transaction terms is appraised, if the transaction amount reaches 10% or more of the Company's total assets, the company shall also obtain an appraisal report from a professional appraiser or a certified public auditor's opinion in compliance with the provisions of the preceding Article. When judging whether a trading counterparty is a related party, in addition to legal formalities, the substance of the relationship shall also be considered.
2. When the Company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the Company's total assets, or NT$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Board of Directors and recognized by the Audit Committee:
   (1) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
   (2) The reason for choosing the related party as a trading counterparty.
   (3) With respect to the acquisition of real property from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Paragraphs 3 and 4 of this Article.
   (4) The date and price at which the related party originally acquired the property, the original trading counterparty, and that trading counterparty's relationship to the Company and the related party.
   (5) Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.
   (6) Restrictive covenants and other important stipulations associated with the transaction.
   (7) An appraisal report from a professional appraiser or a certified public accountant's opinion obtained in compliance with the preceding Article.

3.When the Company acquires real property from a related party, it shall evaluate the reasonableness of the transaction costs by the following means (Where land and structures thereupon are combined as a single property purchased in one transaction, the transaction costs for the land and the structures may be separately appraised following any one of the below methods):

(1) Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.

(2) Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70% or more of the financial institution's appraised loan value of the property and the period of the loan shall have been 1 year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.

4. When the Company acquires real property from a related party and appraises the cost of the real property in accordance with the previous Paragraph, it shall also engage a certified public accountant to check the appraisal and render a specific opinion.

5. When the Company acquires real property from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with Paragraph 2 of this Article, but Paragraphs 3 and 4 do not apply:

(1) The related party acquired the real property through inheritance or as a gift.

(2)More than 5 years will have elapsed from the time the related party signed the contract to obtain the real property to the signing date for the current transaction.

(3)The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the company's own land or on rented land.

6. When the Company acquires real property from a related party and the results of the appraisal conducted in accordance with Paragraph 3 of this Article are uniformly lower than the transaction price, the matter shall be handled in compliance with Paragraph 7. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a certified public accountant, this restriction shall not apply:

(1) Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:

1. When undeveloped land is appraised in accordance with the means in Paragraph 3 of this Article, and structures according to the related party's construction cost plus reasonable construction profit are valued in excess of the actual transaction price. The "reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the past three years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
2. There are cases of completed transactions by unrelated parties within the preceding year involving other floors of the same property or a neighboring property in which the properties are similar in area and the terms of the transactions in those cases are found to be similar after assessment of reasonable discrepancies in the prices of different floors or districts in accordance with standard property market practices.
3. There are cases of leasing transactions completed by unrelated parties for other floors of the same property within the preceding year in which the transaction terms are estimated to be similar based on reasonable price discrepancies among floors in accordance with standard property leasing market practices.

(2) Where the Company acquiring real property from a related party provides evidence that the terms of the transaction are similar to the terms of transactions completed for the acquisition of neighboring parcels of land of a similar size by unrelated parties within the preceding year.

(3) "Neighboring parcels of land" in (1) and (2) of this paragraph in principle refers to parcels on the same, or an adjacent block, and within a radius of no more than 500 meters, or parcels close in publicly announced current value. "Similarly sized parcels" in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50% of the property in the planned transaction. "Within the preceding year" refers to the year preceding the date of occurrence of the acquisition of the real property.

7. Where the Company acquires real property from a related party and the results of appraisals conducted in accordance with Paragraph 3 of this article are uniformly lower than the transaction price, the following steps shall be taken:

(1) A special reserve shall be set aside in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act against the difference between the real property transaction price and the appraised cost, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, Paragraph 1 of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in the other company. When the Company has set aside a special reserve under the preceding sentences, it may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased at a premium, or they have been disposed of, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the FSC has given its consent.

(2) The Audit Committee shall follow the provisions set out under Article 218 of the Company Act.

(3) Actions taken pursuant to Subparagraph 1 and Subparagraph 2 above shall be reported to a Shareholders' Meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

8. When the Company acquires real property from a related party and any evidence indicates that the acquisition was not performed in accordance with operational conventions, and then it shall comply with Subparagraphs 1 and 2 of the previous Paragraph.
9. When a matter is submitted for discussion by the Board of Directors pursuant to this Article, if an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors meeting. Adoption pursuant to this Article, which shall be subject to the consent of one-half or more of all Audit Committee members and be submitted to the Board of Directors for a resolution. If approval of more than half of all Audit Committee members is not obtained, the procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.
10. The calculation of the transaction amounts shall be made in accordance with Article 11, Paragraph 1, and Subparagraph 2. Items that have been approved by the Board of Directors and recognized by the Audit Committee need not be counted toward the transaction amount.
11. With respect to the acquisition or disposal of business-use equipment between the Company and its parent or subsidiaries, the Company's Board of Directors may delegate the Chairman to decide such matters when the transaction is within a certain amount and the decisions are subsequently submitted to and ratified at the next Board of Directors meeting.

Article 10 Scope and amount of investment:

Except when acquiring property for business use, the Company and its subcontractors shall follow the below limits for investment in securities and purchases of real property not for business use:

1. The total investment in securities shall not exceed 100% of the Company's net value. Subsidiaries may not exceed 80% of their net value, but subsidiaries that are professional investment companies may not exceed 100% of their net value.
2. The total value of investments in individual securities shall not exceed 30% of the Company's net value. Subsidiaries may not exceed 20% of their net value, but subsidiaries that are professional investment companies may not exceed 100% of their net value.
3. The Company and its subsidiaries' total purchases of real property not for business use shall not exceed 50% of their net value.

Article 11 Announcements, reporting, and disclosure of material information:

1. When the Company acquires or disposes of assets and the following circumstances apply, the Company shall publicly announce and report the relevant information on the competent authority's designated website in the appropriate format as prescribed by regulations within 2 days commencing immediately from the date of occurrence of the event:
   (1) Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of paid-in capital, 10% or more of the Company's total assets, or NT$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds.
   (2) Merger, demerger, acquisition, or transfer of shares.
   (3) The loss in derivatives reaches the upper loss limit, including in total or of an individual contract as regulated in the Company's Operational Procedures for Derivatives Trading.
   (4) In addition to the provisions of the preceding (1) - (3), any transactions of assets, disposal of debts by financial institutions or investment in Mainland China which have reach a transaction amount up to 20% of the Company's paid-in capital or more than NT$ 300 million. The following situations are not subject to this limit:
      1. Trading of government bonds.
      2. Trading bonds attached with repurchase and resell conditions or purchasing or redemption domestic money market funds.
      3. Acquisition or disposal of such assets as equipment for business that does not involve a related party and the transaction amount is less than NT$500 million.
      4. Acquisition of real property in the methods of contracted construction on self-owned land/leased land, co-construction &

housing sharing, co-construction & profit sharing, and co-construction & housing distribution where the investment amount of less than NT$500 million. (The investment amount is based on Company estimates.)

2. The amount of transactions above shall be calculated as follows:
    (1) The amount of every transaction
    (2) The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.
    (3) The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.
    (4) The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.
    (5) "Within the preceding year" as used in this section refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Procedures need not be counted toward the transaction amount.
3. If the subsidiary is not a public company in Taiwan, it shall follow the rule here for announcing and reporting when totals reach 20% of the paid-in capital or 10% of total assets, both in regards to the parent company. The Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies and enter the information in the prescribed format and publically announce and report by the 10th day of each month on the competent authority’s designated website.
4. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and is required to correct it, all the items shall be again publicly announced and reported in their entirety.
5. Where any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported as required, a public report of relevant information shall be made on the competent authority’s designated website within 2 days commencing immediately from the date of occurrence of the event:
    (1) Change, termination, or rescission of a contract signed in regard to the original transaction.
    (2) The merger, demerger, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.
    (3) Change to the originally publicly announced and reported information.
6. Disclosure of Material Information: Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities promulgated by the Taiwan Stock Exchange Corporation.

Article 12 Other issues:

1. After receiving approval of the Audit Committee, these Procedures shall be sent to the Board of Directors and come into effect following approval of the Shareholders' Meeting, which also applies for revisions. If any director expresses dissent and such opinion is recorded in the minutes or a written statement, the Company shall submit the director's dissenting opinion to the Audit Committee. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors meeting. Any transaction involving major assets or derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution. If approval of more than half of all Audit Committee members as required in the preceding sentence is not obtained, the procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.
2. Unless otherwise required by law, the Company shall keep on file all contracts, minutes, memorandum books, appraisal reports, and opinions issued by certified public accountants, attorneys, or securities underwriters for any acquisition or disposal of assets for a period of no less than 5 years.
3. When a Company subsidiary intends to acquire or dispose of assets, the subsidiary shall formulate and implement procedures in accordance with the Procedures Governing the Acquisition and Disposal of Assets.

Article 13 Penalties:

If any Company managers or relevant personnel are in breach of these Procedures and/or any related laws and regulations, penalties shall be incurred in accordance with Company rewards and punishments regulations proportional to the gravity of the breach.

Article 14

These Procedures were adopted on May 18, 1991 and the 8th revision was made on June 18, 2014. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.

Appendix 4

China Airlines Ltd.

Operational Procedures for Endorsements/Guarantees

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

Article 1 Purpose:

These Procedures governing endorsements and guarantees were formulated to meet business needs.

Article 2 Scope of Application

1. Any company which has a business relationship with the Company.
2. Any company in which the Company directly or indirectly holds more than 50% of the voting shares.
3. Any company that directly and indirectly holds more than 50% of the voting shares in the Company.
4. Companies in which the Company holds, directly and indirectly, 90% or more of the voting shares can provide endorsements or guarantees for each other.
5. In cases where all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages, such endorsements/guarantees may be made free of the restriction of the preceding paragraphs. However, the Company shall not take on any liability related to the endorsements/guarantees of other shareholders.

Article 3 Types of Endorsements/Guarantees

The term "endorsements/guarantees" as used in the Procedures refers to the following:

1. Financing endorsements/guarantees, including bill discount financing, endorsements or guarantees made to meet the financing needs of another company, and issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
2. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company itself or another company with respect to customs duty matters.
3. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the preceding two Paragraphs.
4. Any creation by the Company of a pledge or mortgage on its chattel or real estate as security for the loans of another company shall be subject to these Procedures.

Article4 Ceilings on the Amount of Endorsements or Guarantees

1. The total amount of endorsements or guarantees that the Company provides shall not exceed 50% of the net value of the Company based on its latest financial statements. The total value of endorsements/guarantees made by the Company and its subsidiaries shall not exceed 50% of the net value of the

Company based on its latest financial statements.

2. The amount of endorsements or guarantees that the Company provides for any individual enterprise shall not exceed 20% of the net value of the Company based on its latest financial statements. The amount of endorsements or guarantees made by the Company and its subsidiaries to an individual enterprise shall not exceed 20% of the net value of the Company based on its latest financial statements. However, when providing endorsements/guarantees to a company due to a business relationship, the amount of endorsements or guarantees that the Company provides for any individual enterprise shall not exceed the total amount of the business transactions between that enterprise and the Company over the previous year.
3. Should the Company provide endorsements/guarantees to a subsidiary to meet the financing needs of the Company and the Company has already reported this liability, it shall not be calculated towards the Company's total amount of endorsements or guarantees.
4. For companies in which the Company holds, directly or indirectly, 90% or more of the voting shares the amount of endorsements/guarantees shall not exceed 10% of the net value of the Company based on its latest financial statements and must be approved by resolution of the Board of Directors before implementation. This restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.
5. For any company in which the Company directly or indirectly holds more than 50% of the voting shares, in addition to providing proper justification for the Board of Directors to approve, the endorsement/guarantee ratio shall not exceed the Company's shareholding ratio.

Article 5 Endorsement/Guarantee Procedure

1. When making an endorsement or guarantee, the unit handling the process shall first ensure that the endorsement/guarantee counterparty, type of endorsement/guarantee, and total amount meet the conditions set out in Articles 2, 3, and 4
2. After completing the below assessment procedures, and said assessments are reviewed and signed off by the Finance Division, the unit handling the endorsement/guarantee process shall report to the Board of Directors and implement after approval by the Board. However, due to their time-sensitive nature, unless otherwise stated within these Procedures, if the total amount of one endorsement/guarantee is less than 10% of the Company's total net value based on the most recent financial statement certified or examined by a certified public accountant (the calculation shall be based on the net value recorded in the latest financial statement that has been certified or approved by a certified public accountant), the Company's Chairman may first authorize the endorsement/guarantee, then report to the next Board of Directors Meeting for ratification.

   (1) The necessity of and reasonableness of endorsements/ guarantees.
   (2) Content of the credit status and risk assessment of the endorsement/guarantee counterparty shall include the counterparty's business, financial condition, debt-repayment ability and credit, earning power, and purpose of the

endorsement/guarantee.
(3) The impact on the Company's business operations, financial condition, and shareholder equity.
(4) Whether collateral must be obtained and appraisal of the value thereof.

3. The unit handling the endorsement/guarantee shall record the endorsement/guarantee counterparty, the amount, the date of passage by the Board of Directors or of authorization by the Chairman, the date the endorsement/guarantee is made, the assessment made per the previous paragraph, description of collateral and its appraisal report, along with the terms and date for discharge of liability and provide to the Finance Division to establish a memorandum.
4. When the endorsement/guarantee counterparty returns the funds or for some other reason the liability is reduced or discharged, the unit handling the process shall provide the relevant information to the Finance Division so it can be recorded in the endorsement/guarantee memorandum.
5. The Company's internal auditors shall audit the Procedures and the implementation thereof no less frequently than quarterly and prepare written records accordingly. In the case of material violation, the Audit Committee shall be notified in writing.
6. Should circumstances change and the endorsement/guarantee counterparty no longer fulfill the requirements outlined in these Procedures or exceed the prescribed limit, the unit handling the endorsement/guarantee process shall formulate an improvement plan and provide the relevant plan to Audit Committee and follow said plan to make the necessary corrections.

Article 6 Information Reporting Standards and Procedures

1. The Company shall publically announce and report the previous month's balance of endorsements/guarantees of itself and its subsidiaries by the 10th day of each month.
2. Should the amount of endorsements/guarantees reach one of the following levels, the Company shall announce and report such event within two days commencing immediately from the date of occurrence:
   (1) The balance of endorsements/guarantees made by the Company and its subsidiaries reaches or exceeds 50% of the net worth of the Company specified in its latest financial statement.
   (2) The balance of endorsements/guarantees to any single enterprise by the Company and its subsidiaries reaches or exceeds 20% of the net worth of the Company specified in its latest financial statement.
   (3) The balance of endorsements/guarantees to any single enterprise by the Company and its subsidiaries reaches NT$10 million or more and the balance of endorsements/guarantees, long-term investment, and funds lent to the enterprise reaches or exceeds 30% of the net worth of the Company specified in its latest financial statement.
   (4) The increase of endorsements/guarantees made by the Company or its subsidiaries reaches NT$30 million or more, and is 5% or more of the net worth of the Company specified in its latest financial statement.
3. The Company shall announce and report on behalf of any subsidiary thereof that is not a public company of the Republic of China any matters that such subsidiary is required to announce and report pursuant to the Subparagraph 4 of the above Paragraph.

Article 7 Control Procedures for Endorsements/Guarantees Provided by Subsidiaries

1. Where a subsidiary of the Company intends to make endorsements/guarantees for others, the Company shall instruct it to formulate its own Operational Procedures for Endorsements/Guarantees in compliance with “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”.
2. Company subsidiaries shall compile a list of endorsements/guarantees provided to others over the previous month on or before the 8th day of each month and send to the Company’s Investment Development Management Division to transfer to the Finance Division.
3. To ensure strict risk management, for subsidiaries whose net worth is lower than half of its paid in capital based on the previous year’s financial report, each year the Company must assess the necessity, reasonableness, and risk of its endorsements/guarantees. If the subsidiary has no par value or a par value other than NT$10 per share, the paid-in capital calculation shall be the sum of the share capital plus paid-in capital in excess of par.
4. The internal auditors of the Company’s subsidiaries shall audit these Procedures and the implementation thereof no less frequently than quarterly and prepare written records accordingly. In the case of material violation, the Company’s auditing division shall be notified in writing which will in turn provide the written materials to the Company’s Audit Committee.
5. The Company’s internal auditors, when performing annual reviews of subsidiaries, shall gain an understanding of the subsidiaries’ implementation of the Operational Procedures for Endorsements/Guarantees. If any material breach discovered, the auditors shall continue to track the progress of improvements and provide a follow up report to the Chairman.

Article 8 Procedures for Use and Custody of Corporate Chops

1. The Company shall use the chop registered with the Ministry of Economic Affairs for the exclusive use for endorsement and/or guarantee. The chop shall be under the safekeeping of special personnel whose appointment or change must be approved by the Board of Directors.
2. All use of chops in the processing of endorsements/guarantees or issuance of negotiable instruments shall follow the Operating Procedures Governing the Management of Official Seals promulgated by the Administration Division.

Article 9 Other Considerations

1. When making a guarantee for a foreign company, the Company shall have the Guarantee Agreement signed by a person authorized by the Board of Directors.
2. The Company shall evaluate or record the contingent loss for endorsements/guarantees, and shall adequately disclose information on endorsements/guarantees in the financial reports and provide certified public accountants with relevant information for implementation of necessary audit procedures.
3. When the Company makes endorsements/guarantees to others, the opinions of the independent directors should be taken into full consideration. Independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board of Directors meeting.
4. Where it is necessary for the Company to exceed the limit of

endorsements/guarantees defined herein to meet operational needs in accordance with the Procedures, it shall be subject to approval of the Board of Directors and joint guarantees made by a majority of the directors towards the potential loss of the excess, and the Procedures shall be amended subject to ratification of the Shareholders' Meeting. If the Shareholders' Meeting disapproves it, the excess shall be discharged within a given time limit. The Board of Directors meeting referred to previously in this paragraph shall take into full consideration each independent director's opinion and include independent directors' opinions specifically expressing assent or dissent and their reasons for dissent into the minutes of the Board of Directors meeting.

5. Should the counterparty fail to comply with the Regulations or the endorsement/guarantee amount exceeds set limits due to unexpected changes, the Company shall formulate a plan to correct the situation and provide this plan to the Audit Committee.

Article 10 Penalties

If any Company managers or relevant personnel are in breach of these Procedures and/or of any related laws and regulations, penalties shall be incurred in accordance with Company Rewards and Punishments regulations proportional to the gravity of the breach.

Article 11 Implementation and Revision

1. After receiving approval of the Audit Committee, these Procedures shall be sent to the Board of Directors and come into effect following approval of the Shareholders' Meeting. If any director expresses dissent and such opinion is recorded in the in the minutes or a written statement, the Company shall submit the dissenting opinions to the Audit Committee and for discussion by the Shareholders' Meeting. The same procedures also apply for revisions.
2. When these Procedures are up for discussion with the Board of Directors as prescribed by the previous Paragraph, the Board of Directors shall take into full consideration each independent director's opinion. Independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board of Directors.

Article 12 These Procedures were adopted on May 25, 1990 and the 9th revision was made on June 26, 2015. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.

Appendix 5

China Airlines, Ltd. Directors' Shareholdings

Base date: April 24, 2017

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

Director	China Aviation Development Foundation Representative: CHEN, HAN-MING								
Director	Chunghwa Telecom Co., Ltd. Representative: HUANG, HSIU-GU	June 26, 2015	common stock	263,622,116	4.82%	common stock	263,622,116	4.82%	
Director	National Development Fund, Executive Yuan Representative: LIN, SU-MING	June 26, 2015	common stock	519,750,519	9.50%	common stock	519,750,519	9.50%	
Independent Director	CHUNG, LO-MIN	June 26, 2015	common stock	0	0.00%	common stock	0	0.00%	
Independent Director	TING, TIN-YU	June 26, 2015	common stock	0	0.00%	common stock	0	0.00%	
Independent Director	LUO, HSIAO-HSIEN	June 26, 2015	common stock	0	0.00%	common stock	0	0.00%	

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

April 24, 2017 Total shares outstanding: 5,470,890,149 shares

Note: All Directors shall hold statutory shares: 120,000,000 shares. As of April 24, 2017: 2,650,714,570 shares held.

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