China Airlines, Ltd. and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2017 and 2016 and Independent Auditors' Review Report

INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying balance sheets of China Airlines, Ltd. (the "Company") and its subsidiaries (collectively, the "Group") as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Notes 14 and 15 to the accompanying consolidated financial statements, the financial statements of some non-significant subsidiaries and investments accounted for by the equity method were not reviewed. As of March 31, 2017 and 2016, the total combined assets of these non-significant subsidiaries were NT$14,638,402 thousand and NT$14,819,909 thousand, respectively, representing 6.65% and 6.78%, respectively, of the Group's total consolidated assets, and the total combined liabilities of these subsidiaries as of March 31, 2017 and 2016 were NT$6,607,495 thousand and NT$6,508,560 thousand, respectively, representing 3.97% and 4.16%, respectively, of the Group's total consolidated liabilities. For the three months ended March 31, 2017 and 2016, the combined comprehensive income of these subsidiaries were NT$154,878 thousand and NT$197,642 thousand, respectively, representing (3.86%) and 13.72%, respectively, of the Group's consolidated total comprehensive income. As of March 31, 2017 and 2016, the aforementioned investments accounted for by the equity method were NT$2,864,853 thousand and NT$2,975,485 thousand, respectively; for the three months ended March 31, 2017 and 2016, the Group's share of the profit of associates and joint ventures were NT$119,280 thousand NT$122,623 thousand, respectively.

Based on our reviews, except for the effects of adjustments, if any, as might have been determined to be necessary had the financial statements of these non-significant subsidiaries and investments accounted for by the equity method as described in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 11, 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 review such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' review 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' review report and consolidated financial statements shall prevail.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6, 19 and 32)	$ 23,783,871	11	$ 24,267,197	11	$ 22,745,106	10
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	469,187	-	416,641	-	418,644	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)	4,316	-	58,449	-	31,205	-
Receivables:						
Notes and accounts, net (Notes 4, 5, 11 and 32)	8,305,835	4	8,353,785	4	7,148,855	3
Notes and accounts - related parties (Notes 32 and 33)	6,432	-	3,562	-	5,388	-
Other receivables (Note 32)	668,555	-	952,320	-	1,002,518	1
Current tax assets (Notes 4 and 29)	31,945	-	28,259	-	16,489	-
Inventories, net (Notes 4 and 12)	8,705,860	4	8,434,386	4	8,089,709	4
Noncurrent assets held for sale (Notes 4, 5 and 13)	620,236	-	185,100	-	670,455	-
Other assets - current (Notes 6 and 19)	4,059,906	2	4,638,502	2	4,372,146	2
Total current assets	46,656,143	21	47,338,201	21	44,500,515	20
NONCURRENT ASSETS						
Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 32)	-	-	-	-	17,113	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 32)	219	-	3,268	-	-	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 10 and 32)	139,301	-	140,357	-	222,256	-
Investments accounted for by the equity method (Notes 4 and 15)	2,864,853	1	2,866,431	1	2,975,485	1
Property, plant and equipment (Notes 4, 5, 16 and 34)	138,040,700	63	140,136,737	62	127,935,480	59
Investment properties (Notes 4 and 17)	2,075,833	1	2,075,903	1	2,076,112	1
Other intangible assets (Notes 4 and 18)	1,118,115	-	1,137,115	1	1,079,349	1
Deferred income tax asset (Notes 4, 5 and 29)	6,097,719	3	6,256,665	3	6,875,284	3
Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)	23,178,238	11	24,546,082	11	32,838,779	15
Total noncurrent assets	173,514,978	79	177,162,558	79	174,019,858	80
TOTAL	$ 220,171,121	100	$ 224,500,759	100	$ 218,520,373	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 20)	$ 1,798,030	1	$ 135,000	-	$ 118,215	-
Short-term bills payable (Note 20)	1,839,989	1	900,000	-	-	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	34,836	-	-	-	13,297	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)	156,569	-	20,854	-	323,139	-
Notes and accounts payable (Note 32)	832,657	-	869,712	-	710,351	-
Notes and accounts payable - related parties (Notes 32 and 33)	568,951	-	555,829	-	491,009	-
Other payable (Note 23)	10,281,073	5	11,465,254	5	10,618,410	5
Current tax liabilities (Notes 4 and 29)	79,442	-	48,687	-	116,343	-
Provisions - current (Notes 4, 5, 25 and 32)	709,405	-	81,925	-	30,798	-
Deferred revenue - current (Notes 4, 5 and 24)	14,856,171	7	14,820,860	7	11,540,960	5
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32)	2,700,000	1	2,700,000	1	7,655,696	4
Loans and debts - current portion (Notes 20, 32 and 34)	34,638,911	16	32,268,540	14	27,911,852	13
Capital lease obligations - current portion (Notes 4, 22, 32 and 34)	1,283,992	1	1,284,001	1	1,457,957	1
Other current liabilities (Note 32)	3,791,470	2	3,455,062	2	4,348,474	2
Total current liabilities	73,571,496	34	68,605,724	30	65,336,501	30
NONCURRENT LIABILITIES						
Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	6,848	-	-	-	-	-
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)	11,501	-	2,775	-	6,640	-
Bonds payable - noncurrent (Notes 4, 21, 27 and 32)	16,845,439	8	19,538,044	9	8,200,000	4
Loans and debts - noncurrent (Notes 20, 32 and 34)	55,829,355	25	56,962,187	25	58,987,517	27
Provisions - noncurrent (Notes 4, 5, 25 and 32)	7,086,423	3	7,408,229	3	6,176,767	3
Deferred tax liabilities (Notes 4 and 29)	213,433	-	273,610	-	325,040	-
Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)	3,322,496	2	3,645,304	2	4,830,828	2
Deferred revenue - noncurrent (Notes 4, 5 and 24)	1,755,916	1	1,808,903	1	1,789,354	1
Accrued pension costs (Notes 4, 5 and 26)	7,301,471	3	7,956,835	4	10,448,204	5
Other noncurrent liabilities (Note 32)	419,646	-	431,950	-	432,900	-
Total noncurrent liabilities	92,792,528	42	98,027,837	44	91,197,250	42
Total liabilities	166,364,024	76	166,633,561	74	156,533,751	72
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)						
Capital stock	54,708,901	25	54,708,901	25	54,708,901	25
Capital surplus	799,932	-	799,932	-	798,415	-
Retained earnings (accumulated deficits)						
Legal reserve	287,224	-	287,224	-	-	-
Special reserve						
Unappropriated retained earnings (accumulated deficits)	(3,920,762)	(2)	(157,618)	-	4,331,012	2
	(3,920,762)	(2)	(157,618)	-	4,331,012	2
Total retained earnings (accumulated deficits)	(3,633,538)	(2)	129,606	-	4,331,012	2
Other equity	(175,830)	-	112,264	-	(130,554)	-
Treasury stock	(43,372)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	51,656,093	23	55,707,331	25	59,664,402	27
NONCONTROLLING INTERESTS (Note 27)	2,074,518	1	2,083,381	1	2,322,220	1
Total equity	53,730,611	24	57,790,712	26	61,986,622	28
TOTAL	$ 220,094,635	100	$ 224,424,273	100	$ 218,520,373	100

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

(With Deloitte & Touche review report dated May 11, 2017)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
REVENUES (Notes 4, 28 and 33)	$ 35,796,465	100	$ 34,999,023	100
COSTS (Notes 4, 9, 12, 19, 25, 26, 28 and 33)	32,997,085	92	29,250,258	83
GROSS PROFIT	2,799,380	8	5,748,765	17
OPERATING EXPENSES (Notes 4, 26 and 28)	3,168,810	9	3,377,551	10
OPERATING PROFIT (LOSS)	(369,430)	(1)	2,371,214	7
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 28)	140,798	-	156,044	-
Other gains and losses (Notes 9, 13, 16 and 28)	(3,080,848)	(8)	(439,240)	(1)
Finance costs (Notes 9 and 28)	(326,690)	(1)	(345,266)	(1)
Share of the profit of associates and joint ventures (Note 15)	119,280	-	123,610	-
Total non-operating income and expenses	(3,147,460)	(9)	(504,852)	(2)
PROFIT (LOSS) BEFORE INCOME TAX	(3,516,890)	(10)	1,866,362	5
INCOME TAX EXPENSE (Notes 4, 5 and 29)	196,477	-	358,897	1
NET INCOME (LOSS) FOR THE PERIOD	(3,713,367)	(10)	1,507,465	4
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 27)	(147,996)	-	(50,373)	-
Unrealized loss on available-for-sale financial assets (Notes 4 and 27)	-	-	(1,967)	-
Cash flow hedges (Notes 4 and 27)	(208,539)	(1)	(25,066)	-

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4,15 and 27)	$ -	-	$ (987)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	59,462	-	11,191	-
Other comprehensive loss for the period, net of income tax	(297,073)	(1)	(67,202)	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (4,010,440)	(11)	$ 1,440,263	4
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	$ (3,760,875)	(10)	$ 1,463,951	4
Non-controlling interests	47,508	-	43,514	-
	$ (3,713,367)	(10)	$ 1,507,465	4
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	$ (4,048,969)	(11)	$ 1,399,680	4
Non-controlling interests	38,529	-	40,583	-
	$ (4,010,440)	(11)	$ 1,440,263	4
EARNINGS (LOSSES) PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	$ (0.69)		$ 0.27	
Diluted	$ (0.69)		$ 0.26	

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

(With Deloitte & Touche review report dated May 11, 2017) (Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company											
			Retained Earnings			Other Equity						
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Stock Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016	$ 54,708,901	$ 798,415	$ -	$ -	$ 2,872,235	$ 157,959	$ 1,755	$ (225,997)	$ (43,372)	$ 58,269,896	$ 2,286,647	$ 60,556,543
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)	-	(1,638)
Difference between cost and net value of acquired subsidiaries	-	-	-	-	(3,536)	-	-	-	-	(3,536)	(4,548)	(8,084)
Net income for the three months ended March 31, 2016	-	-	-	-	1,463,951	-	-	-	-	1,463,951	43,514	1,507,465
Other comprehensive loss for the three months ended March 31, 2016, net of income tax	-	-	-	-	-	(41,924)	(1,925)	(20,422)	-	(64,271)	(2,931)	(67,202)
Total comprehensive income (loss) for the three months ended March 31, 2016	-	-	-	-	1,463,951	(41,924)	(1,925)	(20,422)	-	1,399,680	40,583	1,440,263
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(462)	(462)
BALANCE AT MARCH 31, 2016	$ 54,708,901	$ 798,415	$ -	$ -	$ 4,331,012	$ 116,035	$ (170)	$ (246,419)	$ (43,372)	$ 59,664,402	$ 2,322,220	$ 61,986,622
BALANCE AT JANUARY 1, 2017	$ 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
Difference between cost and net value of acquired subsidiaries	-	-	-	-	(2,269)	-	-	-	-	(2,269)	(46,118)	(48,387)
Net gain (loss) for the three months ended March 31, 2017	-	-	-	-	(3,760,875)	-	-	-	-	(3,760,875)	47,508	(3,713,367)
Other comprehensive loss for the three months ended March 31, 2017, net of income tax	-	-	-	-	-	(114,408)	-	(173,686)	-	(288,094)	(8,979)	(297,073)
Total comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	-	(3,760,875)	(114,408)	-	(173,686)	-	(4,048,969)	38,529	(4,010,440)
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,274)	(1,274)
BALANCE AT MARCH 31, 2017	$ 54,708,901	$ 799,932	$ 287,224	$ 76,486	$ (3,920,762)	$ (35,844)	$ 1,714	$ (141,700)	$ (43,372)	$ 51,732,579	$ 2,074,518	$ 53,807,097

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

(With Deloitte & Touche review report dated May 11, 2017)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	$ (3,516,890)	$ 1,866,362
Adjustments to reconcile net cash generated from (used in) operating activities:		
Depreciation expenses	4,639,963	4,267,927
Amortization expenses	61,663	23,312
Bad-debt expense	12,648	10,785
Net loss on fair value changes of financial assets and liabilities held for trading	36,572	25,374
Interest income	(42,747)	(91,229)
Share of profit of associates and joint ventures	(119,280)	(123,610)
(Gain) loss on disposal of property, plant and equipment	1,151	(3,395)
Gain on disposal of noncurrent assets held for sale	(25,140)	-
Loss on disposal of investments	61	-
Loss on inventories and property, plant and equipment	328,377	156,507
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	2,842,383	-
Net (gain) loss on foreign currency exchange	(289,739)	624,537
Finance costs	326,690	345,266
Recognition of provisions	818,629	600,052
Amortization of unrealized gain on sale-leasebacks	(3,628)	(3,628)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets and liabilities held for trading	(49,431)	111,347
Decrease in derivative financial assets for hedging	-	13,096
Increase in notes and accounts receivable	(202,798)	(314,199)
Decrease in accounts receivable - related parties	101,822	67,282
Increase in other receivables	316,568	26,228
Decrease (increase) in inventories	(510,614)	111,184
(Increase) decrease in other current assets	569,733	(490,565)
Decrease in notes and accounts payable	(238,172)	(207,305)
Increase (decrease) in accounts payable - related parties	167,343	(254,060)
Decrease in other payables	(950,727)	(1,742,458)
Decrease in deferred revenue	(16,298)	(1,126,462)
Decrease in provisions	(164,140)	(567,391)
Increase in other current liabilities	335,821	404,120
Decrease in accrued pension liabilities	(667,504)	(116,749)
Increase (decrease) in other liabilities	17,170	(55,220)
Cash generated from operations	3,779,486	3,557,108
Interest received	44,729	91,260
Dividends received from associates	52,986	-
Interest paid	(428,354)	(439,257)
Income tax paid	(15,408)	(15,513)
Net cash generated from operating activities	3,433,439	3,193,598

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from noncurrent assets held for sale	$ 332,551	$ -
Payment for property, plant and equipment	(1,462,397)	(2,376,090)
Proceeds from disposal of property, plant and equipment	18,848	5,768
Increase in refundable deposits	(54,190)	(122,105)
Decrease in refundable deposits	97,447	87,305
Increase in prepayments for equipment	(3,475,613)	(3,038,066)
Increase in computer software costs	(42,721)	(92,935)
Decrease (increase) in restricted assets	(4,427)	436,108
Refund in prepayments for aircrafts	-	2,858,833
Net cash used in investing activities	(4,590,502)	(2,241,182)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	1,710,000	20,000
Decrease in short-term loans	(50,000)	(75,000)
Increase (decrease) in short-term bills payable	939,989	(9,995)
Repayments of bonds payable	(2,700,000)	-
Proceeds of long-term debts and capital lease obligations	6,013,000	7,371,000
Repayments of long-term debts and capital lease obligations	(5,065,831)	(8,550,385)
Proceeds of guarantee deposits received	50,117	30,165
Refund of guarantee deposits received	(33,758)	(15,322)
Acquisition of subsidiaries' stock	(48,387)	(8,084)
Cash dividends paid to non-controlling interests	(1,274)	(462)
Net cash generated from (used in) financing activities	813,856	(1,238,083)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(140,119)	(460,312)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(483,326)	(745,979)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	24,267,197	23,491,085
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 23,783,871	$ 22,745,106

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

(With Deloitte & Touche review report dated May 11, 2017) (Concluded)

1. GENERAL INFORMATION

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

The major stockholders of the Company are the China Aviation Development Foundation ("CADF") and the National Development Fund ("NDF"), Executive Yuan. As of March 31, 2017, December 31, 2016 and March 31, 2016, CADF and NDF held a combined 43.63% of the Company's stock.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement of the Company and its subsidiaries (collectively, the "Group") were approved by the board of directors and authorized for issue on May 11, 2017.

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

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

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

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

      The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which an impairment loss has been recognized or reversed is the fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendment should be applied retrospectively from January 1, 2017. Refer to Notes 13 and 16 for related disclosures.

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

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

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and the impairment of goodwill are enhanced. Refer to Note 33 for related disclosures.

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

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

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

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

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

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

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

The impairment of financial assets

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

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

Hedge accounting

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

2) IFRS 16 "Leases"

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

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

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

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

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

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

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, and IAS 11 “Construction Contracts”.

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Except for the policies listed below, the accounting policies adopted for these consolidated financial statements are same as those for the consolidated financial statements for the year ended December 31, 2016.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosures required in a full set of annual consolidated financial statements.

Basis of Consolidation

Principles for preparing consolidated financial statements

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries, including special purpose entities).

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries, to ensure that subsidiaries' accounting policies are consistent with the Company.

All intra-group transactions, balances, income and expenses are written of in consolidation financial statement.

Non-controlling interests shall be presented in the consolidated balance sheets within equity and separately from the equity of the owners of the Company. The total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The proportion of ownership and main businesses of subsidiaries can be found in Note 14 and Table 5 following the notes to the consolidated financial statements.

Retirement Benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Material accounting judgments, estimates and assumptions adopted for these consolidated financial statements are same as those for the consolidated financial statements for the year ended December 31, 2016.

6. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand and revolving fund	$ 462,051	$ 359,106	$ 351,302
Checking accounts and demand deposits	9,288,987	9,266,679	7,844,273
Cash equivalents			
Time deposits with original maturities of less than three months	4,485,204	3,698,109	13,880,888
Repurchase agreements collateralized by bonds	9,547,629	10,943,303	668,643
	$ 23,783,871	$ 24,267,197	$ 22,745,106

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

	March 31, 2017	December 31, 2016	March 31, 2016
Bank balance	0%-2%	0.05%-2%	0%-1.11%
Time deposits with original maturities of less than three months	1.5%-4.35%	0.13%-12.9%	0.3%-7.25%
Repurchase agreements collateralized by bonds	0.4%-1.53%	0.33%-1.40%	0.38%-0.46%

The amount of time deposits with original maturities of more than three months for March 31, 2017, December 31, 2016 and March 31, 2016 were $758,083 thousand, $1,267,927 thousand and $2,030,162 thousand, respectively, and the respective market rate intervals were 0.13%-1.38%, 0.16%-2.45% and 0.41%-1.23%, which were recognized as other current assets. (Refer to Note 19).

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

	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets held for trading - current			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	$ -	$ 1,200	$ 12,393
Non-derivative financial assets			
Beneficial certificates	469,187	415,441	406,251
	$ 469,187	$ 416,641	$ 418,644
Financial liabilities held for trading			
Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts			
Current	$ 34,836	$ -	$ 13,297
Noncurrent	$ 6,848	$ -	$ -

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
March 31, 2017			
Buy forward contracts	NTD/USD	2017.4.28-2019.1.31	NTD1,060,606/USD35,000
December 31, 2016			
Buy forward contracts	NTD/USD	2017.1.26	NTD32,258/USD1,000
March 31, 2016			
Buy forward contracts	NTD/USD	2016.4.1-2017.1.26	NTD1,993,569/USD62,000

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31, 2017		December 31, 2016		March 31, 2016	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Non-current						
Domestic market						
TransAsia Airways	$ -	-	$ -	-	$ 17,113	-

On November 22, 2016, the board of the directors of TransAsia Airways (TNA) resolved to dissolve TNA. Therefore, the Group recognized an impairment loss on its investment related to TNA. Furthermore, the Group recognized a full allowance for bad debts to the accounts receivable related to TNA.

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	March 31, 2017	December 31, 2016	March 31, 2016
Derivative financial assets under hedge accounting			
Foreign exchange forward contracts	$ 4,535	$ 61,634	$ 25,810
Currency options	-	-	5,355
Fuel options	-	83	40
	$ 4,535	$ 61,717	$ 31,205
Current	$ 4,316	$ 58,449	$ 31,205
Non-current	219	3,268	-
	$ 4,535	$ 61,717	$ 31,205
Derivative financial liabilities under hedge accounting			
Interest rate swaps	$ 1,402	$ 3,855	$ 12,457
Foreign exchange forward contracts	166,668	19,774	157,009
Currency options	-	-	51,705
Fuel options	-	-	108,608
	$ 168,070	$ 23,629	$ 329,779
Current	$ 156,569	$ 20,854	$ 323,139
Non-current	11,501	2,775	6,640
	$ 168,070	$ 23,629	$ 329,779

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

a. Interest rate swaps

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

Notional Amount (In Thousands)	**Maturity Date**	**Range of Interest Rates Paid**	**Range of Interest Rates Received**
March 31, 2017			
NT$1,500,000	2017.5.24-2017.6.22	1.01%-1.06%	TAIBOR Rate
December 31, 2016			
NT$2,500,000	2017.3.9-2017.6.22	1.01%-1.14%	TAIBOR Rate
March 31, 2016			
NT$3,000,000	2016.11.28-2017.6.22	1.01%-1.14%	TAIBOR Rate

The interest rate swaps are settled on a quarterly basis. The Group will settle the difference between the fixed and floating interest rates on a net basis.

b. Currency options

The Group entered into currency options to minimize the risk of changes in foreign currency rates on its cash flow exposure related to fuel payments, which will be paid in U.S. dollars.

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

	Currency	**Maturity Date**	**Notional Amount (In Thousands)**
March 31, 2016			
Buy USD call option	JPY/USD	2016.4.1-2016.12.19	JPY3,957,720/USD33,100
Sell USD put option	JPY/USD	2016.4.1-2016.12.19	JPY3,865,889/USD33,100

c. Fuel options

The Group used fuel options to minimize the risk of changes in fuel prices related to operating costs.

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy fuel call option	USD	2017.1.5-2017.2.8	NTD83
March 31, 2016			
Buy fuel call option	USD	2016.4.30-2017.1.31	NTD40
Sell fuel put option	USD	2016.4.30-2017.1.31	NTD108,608

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

d. Foreign exchange forward contracts

The Group entered into foreign exchange forward contracts to minimize the risk of changes in foreign currency rates on its cash flow exposure related to fuel payments and aircraft leases, which will be paid in U.S. dollars.

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

	Currency	Maturity Date	Notional Amount (In Thousands)
March 31, 2017			
Buy forward contracts	NTD/USD	2017.4.5-2019.3.15	NTD4,771,540/USD157,209
December 31, 2016			
Buy forward contracts	NTD/USD	2017.1.3-2018.10.23	NTD5,381,178/USD167,078
March 31, 2016			
Buy forward contracts	NTD/USD	2016.4.1-2018.3.16	NTD6,462,532/USD200,882

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

	For the Three Months Ended March 31	
	2017	2016
Increase in operating costs	$ (2,747)	$ (248,546)
Increase in finance costs	(1,833)	(1,279)
Other foreign exchange losses	(5,644)	(216)
	$ (10,224)	$ (250,041)

The amount of gains and losses on hedging instruments for the three months ended March 31, 2017 and 2016 reclassified from profit or loss to prepayments for equipment was $51,577 thousand and $512 thousand, respectively.

10. FINANCIAL ASSETS CARRIED AT COST

	March 31, 2017		December 31, 2016		March 31, 2016	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted common stocks						
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 52,704	14	$ 52,704	14
Jardine Aviation Service	56,023	15	56,023	15	56,023	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	6	-	6	74,507	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	19,101	5	20,157	5	21,624	5
Chung Hwa Express Co.	11,000	11	11,000	11	11,000	11
Regal International Advertising	-	-	-	-	5,925	6
	138,828		139,884		221,783	
Unlisted preferred stocks						
Everest Investment Holdings Ltd. (AH)	473	-	473	-	473	-
	$ 139,301		$ 140,357		$ 222,256	
Classified according to financial asset measurement categories						
Available-for-sale financial assets	$ 139,301		$ 140,357		$ 222,256	

The Group recognized an impairment loss of $71,826 thousand, which was classified as other gains (losses) for the year ended December 31, 2016, due to the permanent decline in the value of Taikoo (Xiamen) Landing Gear Service Co., Ltd.

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

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	March 31, 2017	December 31, 2016	March 31, 2016
Notes receivable	$ 606,684	$ 525,797	$ 374,216
Accounts receivable			
Accounts receivable	7,901,930	8,019,386	6,896,252
Less: Allowance for impairment loss	(202,779)	(191,398)	(121,613)
	7,699,151	7,827,988	6,774,639
	$ 8,305,835	$ 8,353,785	$ 7,148,855

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

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

	For the Three Months Ended March 31	
	2017	2016
Beginning balance	$ 191,398	$ 109,927
Impairment loss recognized on receivables	12,648	10,785
Amounts written off during current period	(1,099)	(226)
Amounts recovered during current period	-	-
Effects of exchange rate changes	(168)	1,127
Ending balance	$ 202,779	$ 121,613

12. INVENTORIES

	March 31, 2017	December 31, 2016	March 31, 2016
Aircraft spare parts	$ 7,899,528	$ 7,713,264	$ 7,409,023
Items for in-flight sale	560,618	553,327	528,151
Work in process - maintenance services	243,082	166,684	149,560
Others	2,632	1,111	2,975
	$ 8,705,860	$ 8,434,386	$ 8,089,709

The operating costs recognized for the three months ended March 31, 2017 and 2016 included losses from inventory write-downs of $245,313 thousand and $99,185 thousand, respectively.

13. NON-CURRENT ASSETS HELD FOR SALE

	March 31, 2017	December 31, 2016	March 31, 2016
Aircrafts held for sale	$ 620,236	$ 185,100	$ 670,455

To enhance its competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts according to a planned schedule. For the three months ended March 31, 2016, such aircrafts classified as non-current assets held for sale had a difference between the original book value and the expected sale price which was recognized as an impairment loss of $2,721,274 thousand. However, the actual loss shall be identified by the actual sale price. As such, for the aircrafts which have completed the disposal procedures, the Company recognized $25,140 thousand in disposal gains. The related measurement of fair value is a Level 3 measure for which the second-hand market and the conditions of the aircrafts were referred.

14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

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

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

The Group no longer leases aircrafts, and therefore the Group liquidated Freighter Princess Ltd. and Freighter Prince Ltd.

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

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

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

Each of the Company's holdings of the issued capital stock of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the three months ended March 31, 2017 and 2016 of these subsidiaries was reported according to information that was not independently reviewed except for that of Mandarin Airlines and Tigerair Taiwan Co., Ltd.

The Group's holding of the issued capital stock of China Pacific Catering Services and China Pacific Laundry Services exceeded 50%, yet the Group did not have control over the investees. For related information, refer to Note 15,b.

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31, 2017	December 31, 2016	March 31, 2016
Investments in associates	$ 2,003,442	$ 2,060,403	$ 2,051,203
Investments in jointly controlled entities	861,411	806,028	924,282
	$ 2,864,853	$ 2,866,431	$ 2,975,485

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

	March 31, 2017	December 31, 2016	March 31, 2016
Unlisted companies			
China Aircraft Services	$ 495,566	$ 515,051	$ 497,550
Asian Compressor Technology Services	232,020	267,371	259,441
Kaohsiung Catering Services	295,436	279,176	287,340
Science Park Logistics	266,716	257,928	251,764
Airport Air Cargo Terminal (Xiamen)	446,560	467,041	487,233
Airport Air Cargo Service (Xiamen)	225,598	230,888	226,263
Eastern United International Logistics (Holdings) Ltd.	41,546	42,948	41,612
	$ 2,003,442	$ 2,060,403	$ 2,051,203

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

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

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

	For the Three Months Ended March 31	
	2017	2016
China Aircraft Services	$ 9,196	$ 16,982
Asian Compressor Technology Services	16,259	24,250
Kaohsiung Catering Services	17,636	14,538
Science Park Logistics	8,787	4,084
Airport Air Cargo Terminal (Xiamen)	4,110	963
Airport Air Cargo Service (Xiamen)	7,036	4,107
Eastern United International Logistics (Holdings) Ltd.	873	420
	$ 63,897	$ 65,344

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
China Pacific Catering Services	$ 690,064	$ 638,980	$ 758,697
China Pacific Laundry Services	171,347	167,048	165,585
	$ 861,411	$ 806,028	$ 924,282

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

	Proportion of Ownership and Voting Rights		
	March 31, 2017	December 31, 2016	March 31, 2016
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%

The Group entered into a joint venture agreement with the Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both sides have the right to make major motion vetoes on the board, and therefore the Group does not have control.

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

	For the Three Months Ended March 31	
	2017	2016
China Pacific Catering Services	$ 51,084	$ 54,550
China Pacific Laundry Services	4,299	3,716
	$ 55,383	$ 58,266

Other comprehensive income or loss of associates accounted for using the equity method in the three months ended March 31, 2017 and 2016 are $0 thousand and $(987) thousand, respectively.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the jointly controlled entities' financial statement which were not independently reviewed.

For information on the major businesses and products, the locations of the major business offices, and the countries of registration for the above entities, refer to Tables 5 and 6 (names, locations, and related information of investees on which the Company exercises significant influence and investment in mainland China) following the notes to the consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2017	December 31, 2016	March 31, 2016
Cost			
Freehold land	$ 930,620	$ 965,174	$ 963,341
Buildings	13,043,948	13,104,983	13,122,524
Flight equipment	243,824,160	248,262,079	230,445,927
Equipment under finance leases	24,928,649	28,898,891	28,432,531
Machinery equipment	10,378,878	10,317,327	10,066,439
Office equipment	1,060,536	1,086,015	1,066,987
Leased assets	119,769	120,100	126,366
Leasehold improvements	3,931,705	3,958,811	3,900,340
Construction in progress	645,640	499,547	178,553
	$ 298,863,905	$ 307,212,927	$ 288,303,008
Accumulated depreciation and impairment			
Buildings	$ 5,880,127	$ 5,781,555	$ 5,471,714
Flight equipment	131,925,003	135,893,108	131,333,579
Equipment under finance leases	13,393,953	15,846,688	14,357,279
Machinery equipment	7,067,688	6,964,422	6,698,945
Office equipment	880,264	894,997	851,562
Leased assets	102,190	101,882	108,110
Leasehold improvements	1,573,980	1,593,538	1,546,339
	$ 160,823,205	$ 167,076,190	$ 160,367,528
Net value	$ 138,040,700	$ 140,136,737	$ 127,935,480

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2016	$ 976,427	$ 13,140,158	$ 229,849,035	$ 28,087,404	$ 15,167,890	$ 287,220,914
Additions	-	5,782	1,727,202	371,453	271,653	2,376,090
Disposals	-	(871)	(1,677,594)	(345,312)	(72,155)	(2,095,932)
Reclassification	-	-	547,284	318,986	(26,438)	839,832
Net exchange differences	(13,086)	(22,545)	-	-	(2,265)	(37,896)
Balance at March 31, 2016	$ 963,341	$ 13,122,524	$ 230,445,927	$ 28,432,531	$ 15,338,685	$ 288,303,008
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ (5,355,804)	$ (128,953,990)	$ (14,201,904)	$ (9,080,350)	$ (157,592,048)
Depreciation expenses	-	(126,548)	(3,454,578)	(500,687)	(186,044)	(4,267,857)
Disposals	-	871	1,622,352	345,312	64,821	2,033,356
Reclassification	-	-	(547,363)	-	(5,098)	(552,461)
Net exchange differences	-	9,767	-	-	1,715	11,482
Balance at March 31, 2016	$ -	$ (5,471,714)	$ (131,333,579)	$ (14,357,279)	$ (9,204,956)	$ (160,367,528)
Cost						
Balance at January 1, 2017	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927
Additions	-	835	1,254,442	1,696	226,245	1,483,218
Disposals	-	(615)	(470,333)	-	(110,960)	(581,908)
Reclassification	-	-	(5,222,028)	(3,971,938)	45,643	(9,148,323)
Net exchange differences	(34,554)	(61,255)	-	-	(6,200)	(102,009)
Balance at March 31, 2017	$ 930,620	$ 13,043,948	$ 243,824,160	$ 24,928,649	$ 16,136,528	$ 298,863,905
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)
Depreciation expenses	-	(126,225)	(3,835,478)	(495,349)	(182,841)	(4,639,893)
Disposals	-	615	407,583	-	108,473	516,671
Impairment loss	-	-	(121,109)	-	-	(121,109)
Reclassification	-	-	7,517,109	2,948,084	(245)	10,464,948
Net exchange differences	-	27,038	-	-	5,330	32,368
Balance at March 31, 2017	$ -	$ (5,880,127)	$ (131,925,003)	$ (13,393,953)	$ (9,624,122)	$ (160,823,205)

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

Buildings	
Main buildings	45-55 years
Others	10-25 years
Machinery equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Assets leased to others	3-5 years

(Continued)

Flight equipment and equipment under finance leases	
Airframes	15-25 years
Aircraft cabins	7-20 years
Engines	10-20 years
Heavy maintenance on aircrafts	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	7-12 years
Repairable spare parts	3-15 years
Leased aircraft improvements	5-12 years
	(Concluded)

Regarding changes in fleet composition and the future retirement plan, the Group recognized impairment losses on aircraft equipment for the year ended March 31, 2017 of $121,109 thousand based on the difference between the recoverable amount, which applied the fair value (Level 3), and the book value. The fair value was determined based on aircraft conditions and market estimates.

Refer to Note 34 for the carrying amounts of property, plant and equipment pledged by the Group.

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

17. INVESTMENT PROPERTIES

	March 31, 2017	December 31, 2016	March 31, 2016
Carrying amount			
Investment properties	$ 2,075,833	$ 2,075,903	$ 2,076,112

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

The fair value of the investment properties held by the Group was $2,348,759 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016.

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

	Cost	Accumulated Depreciation	Net Value
Balance on January 1, 2016	$ 2,082,390	$ (6,208)	$ 2,076,182
Additions	-	(70)	(70)
Balance on March 31, 2016	$ 2,082,390	$ (6,278)	$ 2,076,112
Balance on January 1, 2017	$ 2,082,390	$ (6,487)	$ 2,075,903
Additions	-	(70)	(70)
Balance on March 31, 2017	$ 2,082,390	$ (6,557)	$ 2,075,833

18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2016	$ 1,623,186	$ (613,508)	$ 1,009,678
Additions	92,935	-	92,935
Amortization expenses	-	(23,312)	(23,312)
Effects of exchange rate changes	-	48	48
Balance at March 31, 2016	$ 1,716,121	$ (636,772)	$ 1,079,349
Balance at January 1, 2017	$ 1,898,154	$ (761,039)	$ 1,137,115
Additions	42,721	-	42,721
Amortization expenses	-	(61,663)	(61,663)
Effects of exchange rate changes	-	(58)	(58)
Balance at March 31, 2017	$ 1,940,875	$ (822,760)	$ 1,118,115

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

19. OTHER ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Current			
Other financial assets	$ 758,083	$ 1,267,927	$ 2,030,162
Temporary payments	285,898	355,003	963,196
Prepayments	2,515,205	2,429,741	1,154,207
Restricted assets	144,011	178,193	36,367
Others	356,709	407,638	188,214
	$ 4,059,906	$ 4,638,502	$ 4,372,146
Noncurrent			
Prepayments for aircrafts	$ 19,620,004	$ 20,942,278	$ 28,810,244
Prepayments - long-term	2,062,921	2,020,389	2,411,274
Refundable deposits	1,318,113	1,389,464	1,497,098
Restricted assets	166,160	144,835	96,290
Other financial assets	2,845	18,827	14,229
Others	8,195	30,289	9,644
	$ 23,178,238	$ 24,546,082	$ 32,838,779

The prepayments for aircrafts comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and 777-300ER aircrafts. For details of the contract for the purchase of the A350-900 aircrafts, refer to Note 35. The rights to the six confirmed orders of 777-300 ER aircrafts were transferred to the aircraft leasing company upon delivery of the aircrafts. Then, all six aircrafts were leased back. As of May 2016, all the aircrafts had been delivered, and the Group was refunded with deposits for the aircraft purchases.

The Group designated its time deposits with original maturities of more than three months, which were classified as other financial instruments, as cash flow hedges in order to hedge exchange rate exposure from the expenditure on aircraft rentals. As of March 31, 2017, the book value of the hedging instruments was $101,323 thousand. The losses on the effective portion of the cash flow hedges reclassified from equity for the three months ended March 31, 2017 were $2,611 thousand and were classified as operating costs in the statement of comprehensive income.

20. BORROWINGS

a. Short-term loans

	March 31, 2017	December 31, 2016	March 31, 2016
Bank loans - unsecured	$ 1,798,030	$ 135,000	$ 118,215
Interest rates	0.94%-3.33%	1.51%-2%	1.53%-1.65%

b. Short-term and bills payable

	March 31, 2017	December 31, 2016	March 31, 2016
Commercial paper	$ 1,840,000	$ 900,000	$ -
Less: Unamortized discount on bills payable	11	-	-
	$ 1,839,989	$ 900,000	$ -
Annual discount rate	0.858%-1.14%	0.758%	-

c. Long-term debts

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured bank loans	$ 30,257,833	$ 33,993,999	$ 31,079,090
Secured bank loans	23,262,403	18,100,914	22,965,525
Commercial paper			
Proceeds from issue	37,000,000	37,200,000	32,900,000
Less: Unamortized discount	51,970	64,186	45,246
	90,468,266	89,230,727	86,899,369
Less: Current portion	34,638,911	32,268,540	27,911,852
	$ 55,829,355	$ 56,962,187	$ 58,987,517

Secured bank loans were secured by freehold land, buildings, machinery equipment and flight equipment. Refer to Note 34.

Bank loans (New Taiwan dollars, U.S. dollars and Japanese yen) are repayable quarterly, semiannually or in lump sum upon maturity. Related information is summarized as follows:

	Currency	
	New Taiwan Dollars	U.S. Dollars
Original currency		
March 31, 2017	$ 53,018,115	$ 16,570
December 31, 2016	51,045,365	32,536
March 31, 2016	50,953,369	96,138
Translated to New Taiwan dollars		
March 31, 2017	53,018,115	502,121
December 31, 2016	51,045,365	1,049,548
March 31, 2016	50,953,369	3,091,246
Interest rates		
March 31, 2017	0.92%-1.82%	0.9704%-4.39%
December 31, 2016	0.92%-2.27%	0.8539%-4.39%
March 31, 2016	1.0833%-3.15%	0.2376%-4.39%
Periods		
March 31, 2017	2005.4.20-2029.1.5	2005.5.12-2017.9.21
December 31, 2016	2005.3.4-2029.2.4	2005.1.18-2017.9.21
March 31, 2016	2004.12.16-2029.2.4	2004.6.28-2017.9.21

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until February 2021, were used by the Group to guarantee the commercial paper issued. As of March 31, 2017, December 31, 2016 and March 31, 2016, such commercial paper was issued at discount rates of 1.058%-1.496%, 1.0510%-1.4580% and 1.2213%-1.5213%, respectively.

21. BONDS PAYABLE

	March 31, 2017	December 31, 2016	March 31, 2016
Secured corporate bonds first-time issued in 2011	$ -	$ -	$ 2,400,000
Unsecured corporate bonds first-time issued in 2013	8,200,000	10,900,000	10,900,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000	-
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000	-
Convertible bonds issued the fifth time	1,645,439	1,638,044	2,555,696
	19,545,439	22,238,044	15,855,696
Less: Current portion and put option of convertible bonds	2,700,000	2,700,000	7,655,696
	$ 16,845,439	$ 19,538,044	$ 8,200,000

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.1.17-2018.1.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.5.26-2021.5.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.9.27-2021.9.27	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.08
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Unless bonds are converted to capital stock or redeemed, principal repayable one time in December 2018; 1.8245 discount rate p.a.	-

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

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

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

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

c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.

d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company’s common stock. The initial conversion price was set at NT$12.24, which is subject to adjustment if there is a capital injection by cash, stock dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 31, 2016, the conversion price was adjusted to NT$11.64, and corporate bonds with a face value of $3,315,700 thousand were converted to 270,890 thousand shares of common stock.

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

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

22. LEASING

a. Sale-leaseback finance leases

	March 31, 2017	December 31, 2016	March 31, 2016
Minimum lease payments - flight equipment			
Within one year	$ 1,254,000	$ 1,254,000	$ 1,428,467
Beyond one year and within five years	3,248,500	3,562,000	4,722,017
Present value of minimum lease payments	$ 4,502,500	$ 4,816,000	$ 6,150,484
Interest rates	1.068%-1.131%	1.0323%-1.0980%	1.1317%-1.63%

The Group had leased the engines of a total of four aircrafts, A330-300 and 747-400, under sale-leaseback contracts under finance leases as of March 31, 2017. The lease terms are from June 2006 to April 2019. During the lease term, the Group retained all risks and rewards attached to the aircrafts and engines and enjoyed the same substantive rights as were enjoyed prior to the transaction. The interest rates underlying all obligations under such finance leases were floating. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts do not include interest expense.

b. Finance leases

Taiwan Air Cargo Terminal Co. ("TACT") entered into a terminal construction contract. Refer to Note 35 for the terms of the contract. Dynasty Holiday Co., Ltd. signed a long-term equipment lease contract, and the lease contract is a finance lease contract.

	March 31, 2017	December 31, 2016	March 31, 2016
Minimum lease payments - Cargo Terminal and others			
Within one year	$ 30,589	$ 30,131	$ 29,718
Beyond one year and within five years	76,002	85,244	118,959
	106,591	115,375	148,677
Less: Finance costs	(2,603)	(2,070)	(10,376)
Present value of minimum lease payments	$ 103,988	$ 113,305	$ 138,301

(Continued)

	March 31, 2017	December 31, 2016	March 31, 2016
Present value of minimum lease payments - Cargo Terminal and others			
Within one year	$ 29,992	$ 30,001	$ 29,490
Beyond one year and within five years	73,996	83,304	108,811
	$ 103,988	$ 113,305	$ 138,301
Discount rate	4.756%	4.756%	4.96%
Total amount of present value of minimum lease payments			
Current	$ 1,283,992	$ 1,284,001	$ 1,457,957
Noncurrent	3,322,496	3,645,304	4,830,828
	$ 4,606,488	$ 4,929,305	$ 6,288,785

(Concluded)

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

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

Of the rental rates stated in the aircraft lease agreements, some are fixed and some are floating. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of March 31, 2017, the Group has rented eleven A330-300 planes, fifteen B737-800 planes, ten B777-300ER planes, six ERJ190 planes and nine A320-200 planes under operating contracts for which the lease terms range from 8 to 12 years.

As of March 31, 2017, December 31, 2016 and March 31, 2016, the refundable deposits paid by the Group under operating lease contracts were $935,739 thousand, $982,988 thousand and $956,214 thousand, respectively. Part of the guarantees is secured by credit guarantees, and outstanding credit guarantees as of March 31, 2017, December 31, 2016 and March 31, 2016 were $1,415,924 thousand, $1,459,935 thousand and $1,274,903 thousand.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Up to 1 year	$ 10,085,309	$ 10,431,969	$ 9,253,207
Over 1 year to 5 years	38,389,249	39,692,972	38,207,457
Over 5 years	30,029,724	33,360,179	43,696,760
	$ 78,504,282	$ 83,485,120	$ 91,157,424

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

	For the Three Months Ended March 31	
	2017	2016
Minimum lease payments	$ 2,890,726	$ 2,469,865

23. OTHER PAYABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Fuel costs	$ 2,846,998	$ 2,664,944	$ 1,780,709
Ground service expenses	931,166	902,879	1,427,763
Repair expenses	845,844	968,371	908,379
Interest expenses	169,395	294,751	117,417
Short-term employee benefits	2,078,816	1,926,538	2,338,115
Terminal surcharges	708,169	748,070	823,576
Commission expenses	382,971	391,857	442,039
Others	2,317,714	3,567,844	2,780,412
	$ 10,281,073	$ 11,465,254	$ 10,618,410

24. DEFERRED REVENUE

	March 31, 2017	December 31, 2016	March 31, 2016
Frequent flyer program	$ 2,358,483	$ 2,427,565	$ 2,460,154
Advance ticket sales	14,253,604	14,202,198	10,870,160
	$ 16,612,087	$ 16,629,763	$ 13,330,314
Current	$ 14,856,171	$ 14,820,860	$ 11,540,960
Noncurrent	1,755,916	1,808,903	1,789,354
	$ 16,612,087	$ 16,629,763	$ 13,330,314

25. PROVISIONS

	March 31, 2017	December 31, 2016	March 31, 2016
Operating leases - aircraft	$ 7,795,828	$ 7,490,154	$ 6,207,565
Current	$ 709,405	$ 81,925	$ 30,798
Non-current	7,086,423	7,408,229	6,176,767
	$ 7,795,828	$ 7,490,154	$ 6,207,565

	Aircraft Lease Contracts
Balance at January 1, 2016	$ 6,187,481
Additional provisions recognized	600,052
Usage	(567,391)
Effects of exchange rate changes	(12,577)
Balance at March 31, 2016	$ 6,207,565
Balance at January 1, 2017	$ 7,490,154
Additional provisions recognized	818,629
Usage	(164,140)
Effects of exchange rate changes	(348,815)
Balance at March 31, 2017	$ 7,795,828

The Company and Mandarin Airlines leased flight equipment under operating lease agreements. Under the contracts, when the leases expire and the equipment is returned to the lessor, the flight equipment has to be repaired according to the expected years of use, number of flight hours, flight cycles and the number of engine revolution. The Company and Mandarin Airlines had existing obligations to recognize provisions when signing a lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements. In accordance to the contract, Tigerair had to pay the maintenance reserve accounted for by using the number of flying hours.

26. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Group's defined benefit retirement plan were calculated using the actuarially determined pension cost discount rate as of December 31, 2016 and 2015.

	For the Three Months Ended March 31	
	2017	2016
Operating costs	$ 188,378	$ 149,632
Operating expenses	67,690	63,870
	$ 256,068	$ 213,502

27. EQUITY

a. Capital stock

Common stock

	March 31, 2017	December 31, 2016	March 31, 2016
Numbers of stock authorized (in thousands)	6,000,000	6,000,000	6,000,000
Amount of stock authorized	$ 60,000,000	$ 60,000,000	$ 60,000,000
Amount of stock issued	$ 54,708,901	$ 54,708,901	$ 54,708,901

b. Capital surplus

	March 31, 2017	December 31, 2016	March 31, 2016
Issuance of stock in excess of par value and conversion premium	$ 552,470	$ 552,470	$ 552,470
Gain on sale of treasury stock held by subsidiaries	2,673	2,673	1,156
Employee stock options expired	11,747	11,747	11,747
Long-term investment	1,019	1,019	1,019
Bonds payable equity component	146,684	146,684	232,023
Others	85,339	85,339	-
	$ 799,932	$ 799,932	$ 798,415

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

The capital surplus arising from long-term investments and employee stock options may not be used for nothing but to offset deficits. The capital surplus arising from stock option for employees and convertible bonds, cannot be used.

c. Appropriation of earnings and dividend policy

Under the dividend policy as set forth in the Company's Articles of Incorporation (the "Articles") amended on June 24, 2016 based on the amended Company Act, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan with due consideration of any future aircraft acquisition plans and fund demands, which should be resolved in the stockholders' meeting for the distribution of dividends and bonuses to stockholders by cash or stock (cash dividends cannot be less than 30% of total dividends distributed). However, if the Company's profit before tax in a fiscal year after deductions for the abovementioned items is not sufficient for earnings distribution, retained earnings can be used as a supplement for the deficiency. If the Company has no deficit in a fiscal year, the Company can distribute all or part of the capital surplus by cash or stock with due consideration of finance, marketing and management requirements in accordance with the laws and regulations.

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

<u>Appropriation of earnings in 2015</u>

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

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

Appropriation of earnings in 2016

The Company proposed to compensate its deficit using a legal reserve of $81,132 thousand on March 30, 2017. The proposal for its 2016 deficit compensation was to be resolved in the stockholder's meeting held on June 22, 2017.

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

d. Others equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total
Balance on January 1, 2016	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Exchange differences on translating foreign operations	(49,976)	-	-	(49,976)
Unrealized loss on available-for-sale financial assets	-	(938)	-	(938)
Cumulative loss on changes in fair value of hedging instruments	-	-	(273,593)	(273,593)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	249,649	249,649
Share of exchange differences of associates accounted for using the equity method	-	(987)	-	(987)
Effects of income tax	8,052	-	3,522	11,574
Balance on March 31, 2016	$ 116,035	$ (170)	$ (246,419)	$ (130,554)
Balance on January 1, 2017	$ 78,564	$ 1,714	$ 31,986	$ 112,264
Exchange differences on translating foreign operations	(136,323)	-	-	(136,323)
Cumulative loss on changes in fair value of hedging instruments	-	-	(272,310)	(272,310)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	64,232	64,232
Effects of income tax	21,915	-	34,392	56,307
Balance on March 31, 2017	$ (35,844)	$ 1,714	$ (141,700)	$ (175,830)

e. Non-controlling interests

	For the Three Months Ended March 31	
	2017	2016
Beginning balance	$ 2,083,381	$ 2,286,647
Net income attributable to non-controlling interests	47,508	43,514
Exchange differences on translating foreign operations	(11,673)	(397)
Unrealized gain (loss) on financial assets	-	(1,029)
Acquisition of non-controlling interests in subsidiaries	(46,118)	(4,548)
Effects of income tax	3,155	(383)
Cumulative loss on changes in fair value of hedging instruments	(641)	(2,026)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	180	904
Dividends paid by subsidiaries	(1,274)	(462)
Ending balance	$ 2,074,518	$ 2,322,220

f. Treasury stock

Treasury stock are the Company's stock held by its subsidiaries as of March 31, 2017 and 2016 and were as follows:

(Shares in Thousands)

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

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
March 31, 2017			
Mandarin Airlines	2,075	$ 21,887	$ 21,887
Hwa Hsia	814	8,589	8,589
		$ 30,476	$ 30,476

(Continued)

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2016			
Mandarin Airlines	2,075	$ 19,294	$ 19,294
Hwa Hsia	814	7,572	7,572
		$ 26,866	$ 26,866
March 31, 2016			
Mandarin Airlines	2,075	$ 23,858	$ 23,858
Hwa Hsia	814	9,363	9,363
		$ 33,221	$ 33,221

(Concluded)

The above acquisitions by subsidiaries of the Company's stock in previous years was due to investment planning.

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

28. NET INCOME

a. Revenue

	For the Three Months Ended March 31	
	2017	2016
Passenger	$ 24,434,529	$ 24,727,731
Cargo	8,905,204	7,806,929
Others	2,456,732	2,464,363
	$ 35,796,465	$ 34,999,023

b. Other income

	For the Three Months Ended March 31	
	2017	2016
Interest income	$ 42,747	$ 91,229
Subsidy income	6,389	7,450
Others	91,662	57,365
	$ 140,798	$ 156,044

c. Other gains and losses

	For the Three Months Ended March 31	
	2017	2016
Gain (loss) on disposal of property, plant and equipment	$ (1,151)	$ 3,395
Gain on disposal of noncurrent assets held for sale	25,140	-
Net loss arising on financial assets classified as held for trading	(36,572)	(25,374)
Loss on disposal of investments	(61)	-
Loss on foreign exchange, net	(140,600)	(234,787)
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	(2,842,383)	-
Others	(85,221)	(182,474)
	$ (3,080,848)	$ (439,240)

d. Finance costs

	For the Three Months Ended March 31	
	2017	2016
Interest expense		
Bonds payable	$ 77,953	$ 66,061
Bank loans	232,412	258,932
Interest on obligations under financial leases	14,492	18,994
Loss arising on derivatives designated as hedging instruments in cash flow hedge accounting reclassified from equity to profit or loss	1,833	1,279
	$ 326,690	$ 345,266

Information of interest capitalization was as follows:

	For the Three Months Ended March 31	
	2017	2016
Capitalization interest	$ 71,558	$ 108,743
Capitalization rate	1.3849%-1.4140%	1.6670%-1.7347%

e. Depreciation and amortization expenses

	For the Three Months Ended March 31	
	2017	2016
Property, plant, equipment	$ 4,639,893	$ 4,267,857
Investment properties	70	70
Intangible assets	61,663	23,312
Depreciation and amortization expenses	$ 4,701,626	$ 4,291,239

(Continued)

	For the Three Months Ended March 31	
	2017	2016
An analysis of depreciation by function		
Operating costs	$ 4,474,078	$ 4,096,792
Operating expenses	165,885	171,135
	$ 4,639,963	$ 4,267,927
An analysis of amortization by function		
Operating costs	$ -	$ 32
Operating expenses	61,663	23,280
	$ 61,663	$ 23,312

(Concluded)

f. Employment benefits expense

	For the Three Months Ended March 31	
	2017	2016
Post-employment benefits		
Defined contribution plan	$ 116,784	$ 101,802
Defined benefit plan	256,068	213,502
	$ 372,852	$ 315,304
Other employee benefits		
Salary expenses	$ 4,880,596	$ 4,998,672
Personnel service expenses	1,385,337	1,403,194
	$ 6,265,933	$ 6,401,866
An analysis of employee benefits expense by function		
Operating costs	$ 5,475,470	$ 5,319,244
Operating expenses	1,163,315	1,397,926
	$ 6,638,785	$ 6,717,170

To be in compliance with the Company Act as amended, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the three months ended March 31, 2016, the employees' compensation was $490,826 thousand of the base net profit. For the three months ended March 31, 2017, the Company has deficit, and therefore no employees' compensation to be estimated.

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

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

29. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense (benefit) were as follows:

	For the Three Months Ended March 31	
	2017	2016
Current tax		
Current year	$ 33,541	$ 49,162
Deferred tax		
Current year	162,936	309,735
Income tax expense recognized in profit or loss	$ 196,477	$ 358,897

b. Income tax recognized in other comprehensive income

	For the Three Months Ended March 31	
	2017	2016
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 25,054	$ 6,930
Hedging instruments fair value revaluation for cash flow hedging	34,408	4,261
Total income tax recognized in other comprehensive income	$ 59,462	$ 11,191

c. Integrated income tax

	March 31, 2017	December 31, 2016	March 31, 2016
Imputation credit accounts	$ 102,527	$ 102,527	$ 554,402

The actual creditable tax ratio on December 31, 2015 was 20.22%. The Company accumulated a deficit for which to be compensated for the year ended December 31, 2016, and therefore there was no tax deduction ratio resulting from its earnings distribution.

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

d. Income tax assessment

Except for the matters mentioned below, the income tax returns for 2014 of the Company and its subsidiaries have been examined by the tax authorities.

The income tax return of TACT for 2001 was assessed by the tax authorities with an additional income tax payable amounting to $129,350 thousand for the excessive distribution into imputation credits account ("ICA") of TACT's stockholders, and a fine equivalent to one fold of the excessive distribution was assigned. TACT disagreed with the assessment and appealed for a reinvestigation, an administrative appeal and administrative proceedings, but the Supreme Administrative Court affirmed the additional tax payment of $129,350 thousand on December 8, 2011, and TACT made the additional tax payment. Because the decision of the court on the amount of fine remained the same, TACT filed for an administrative remedy, and the High Administrative Court reached a decision on June 15, 2016; however, TACT refused to accept the resolution and appealed to the Supreme Administrative Court on July 4, 2016. Nevertheless, TACT recognized a provision for the fine in the amount of $59,501 thousand.

30. EARNING PER SHARE

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

	For the Three Months Ended March 31	
	2017	2016
Basic earnings per share	$ (0.69)	$ 0.27
Diluted earnings per share	$ (0.69)	$ 0.26
Earnings used in the computation of basic earnings per share	$ (3,760,875)	$ 1,463,951
Effect of potentially dilutive common stock:		
Interest on convertible bonds (after tax)	-	10,223
Earnings used in the computation of diluted earnings per share	$ (3,760,875)	$ 1,474,174

	For the Three Months Ended March 31	
	2017	2016
Weighted average number of common stock in computation of basic earnings per share	5,468,002	5,468,002
Effect of potentially dilutive common stock:		
Convertible bonds	-	219,306
Employees' compensation or bonus issued to employees	-	67,188
Weighted average number of common stock used in the computation of diluted earnings per share	5,468,002	5,754,496

If the Group offered to settle compensation or bonuses paid to employees in cash or stock, the Group assumed the entire amount of the compensation or bonus would be settled in stock and the resulting potential stock were included in the weighted average number of stock outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential stock was included in the computation of diluted earnings per share until the number of stock to be distributed to employees is resolved in the following year.

31. CAPITAL MANAGEMENT

The goal, policies and procedures as well as the composition of the Group's capital management are same as those stated in Note 31 in the Group's consolidated financial statements for the year ended December 31, 2016.

32. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

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

	March 31, 2017		December 31, 2016		March 31, 2016	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities						
Bonds payable	$ 19,545,439	$ 19,621,634	$ 22,238,044	$ 22,580,069	$ 15,855,696	$ 16,279,481
Loans and debt	90,468,266	92,508,673	89,230,727	91,315,640	86,899,369	86,956,059

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of March 31, 2017, December 31, 2016 and March 31, 2016, the fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 1.3370%, 1.191% and 0.749%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

2) Financial instruments evaluated at fair value - on a non-recurring basis

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

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

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

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

March 31, 2017

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Domestic money market fund	$ 469,187	$ -	$ -	$ 469,187
Financial liabilities at FVTPL				
Derivative instrument	$ -	$ 41,684	$ -	$ 41,684
Derivative financial assets for hedging	$ -	$ 4,535	$ -	$ 4,535
Derivative financial liabilities for hedging	$ -	$ 168,070	$ -	$ 168,070

December 31, 2016

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

March 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 12,393	$ -	$ 12,393
Domestic money market fund	406,251	-	-	406,251
	$ 406,251	$ 12,393	$ -	$ 418,644
Financial liabilities at FVTPL				
Derivative instrument	$ -	$ 13,297	$ -	$ 13,297
Available-for-sale financial assets				
Securities listed in domestic	$ 17,113	$ -	$ -	$ 17,113
Derivative financial assets for hedging	$ -	$ 25,810	$ 5,395	$ 31,205
Derivative financial liabilities for hedging	$ -	$ 169,466	$ 160,313	$ 329,779

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

d) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives instruments - foreign currency forward contracts and interest rate swaps	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

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

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

b. Categories of financial instruments

	March 31, 2017	**December 31, 2016**	**March 31, 2016**
Financial assets			
Financial assets at FVTPL	$ 469,187	$ 416,641	$ 418,644
Available-for-sale financial assets (Note 3)	139,301	140,357	239,369
Derivative financial assets for hedging	4,535	61,717	31,205
Loans and receivables (Note 1)	35,839,259	36,576,111	34,576,012
	$ 36,452,282	$ 37,194,826	$ 35,265,230
Financial liabilities			
Financial liabilities at FVTPL	$ 41,684	$ -	$ 13,297
Derivative financial liabilities for hedging	168,070	23,629	329,779
Financial liabilities at amortized cost (Note 2)	137,427,090	137,600,603	127,911,079
	$ 137,636,844	$ 137,624,232	$ 128,254,155

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

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

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

c. Financial risk management objectives and policies

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

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

1) Market risk

The Group is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

The Group enters into forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

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

<u>Sensitivity analysis</u>

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

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

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax profit for the three months ended March 31, 2017 of $59,061 thousand and an increase in pre-tax profit for the three months ended March 31, 2016 of $338,346 thousand, respectively.

b) Interest rate risk

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

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Fair value interest rate risk			
Financial liabilities	$ 25,577,167	$ 26,093,421	$ 16,543,475
Cash flow interest rate risk			
Financial liabilities	92,681,045	91,339,655	92,618,590

Sensitivity analysis

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

Had interest rates increased one yard (25 basis) points and had all other variables been held constant, the Group's pretax profit for the three months ended March 31, 2017 would have decreased by $231,703 thousand.

Had interest rates increased one yard (25 basis) point and had all other variables been held constant, the Group's pretax profit for the three months ended March 31, 2016 would have decreased by $231,546 thousand.

c) Other price risk

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

Sensitivity analysis

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

	For the Three Months Ended March 31			
	2017		2016	
	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)
Fuel price increase 5%	$ -	$ -	$ 7,031	$ 21,375
Fuel price decrease 5%	-	-	(7,113)	(11,128)

2) Credit risk

The goal, policies and procedure of credit risk management are same as consolidated financial statement in 2016. Related illustration can be referred to Note 32.

3) Liquidity risk

The goal, policies and procedures of liquidity risk management are same as consolidated financial statement in 2016. Related illustration can be referred to Note 32.

33. RELATED-PARTY TRANSACTIONS

The transactions between subsidiaries (obtain business) relationship with China Airlines, Ltd., remaining account balance, revenue and expense are eliminated when combined, which is not disclosed in the note. Unless otherwise stated, the transactions between the merged company and other business related parties are as follows:

a. The related parties' names and relationships

Name	Relationship with the Company
Kaohsiung Catering Services	Associates
Science Park Logistics	Associates
Asian Compressor Technology Services	Associates
China Aircraft Service	Associates
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associates
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associates
Eastern United International Logistics (Hong Kong)	Associates
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
China Aviation Development Foundation	Director of the Company and major stockholder
Others	Merged company's director, major management level, chairman, general manager, their spouse and second-degree relatives.

b. Operating income

		For the Three Months Ended March 31	
Account Items	**Related Party Type**	**2017**	**2016**
Other income	Major stockholder of the Company	$ 6,970	$ 8,847
	Associates	$ 635	$ 775
	Joint venture investments	$ 8,231	$ 3,342

c. Purchases

	For the Three Months Ended March 31	
Related Party Type	**2017**	**2016**
Major stockholder of the Company	$ 15,592	$ 20,034
Associates	$ 155,407	$ 166,370
Joint venture investments	$ 456,925	$ 394,336

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

Related Party Type	March 31, 2017	December 31, 2016	March 31, 2016
Major stockholder of the Company	$ 2,571	$ 1,512	$ 3,346
Associates	270	500	307
Joint venture investments	3,591	1,550	1,735
	$ 6,432	$ 3,562	$ 5,388

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

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

Related Party Type	March 31, 2017	December 31, 2016	March 31, 2016
Major stockholder of the Company	$ 5,379	$ 3,503	$ 7,302
Associates	82,739	120,824	81,788
Joint venture investments			
China Pacific Catering Services	460,760	411,698	384,309
Others	20,073	19,804	17,610
	$ 568,951	$ 555,829	$ 491,009

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

f. Leases (operating leases)

The Company has signed a lease contract with the China Aviation Industry Development Foundation for pilot’s training. The Company has leased the flight trainer and simulator and the rental was calculated based on use hours. As of March 31, 2017 and 2016 the rental paid was $15,592 thousand and $20,034 thousand, respectively.

g. Endorsements and assurances

	March 31, 2017		December 31, 2016		March 31, 2016	
	Total Amount	Amount Used	Total Amount	Amount Used	Total Amount	Amount Used
The Company						
Cal Park	$ 3,850,000	$ 2,796,000	$ 3,850,000	$ 2,783,000	$ 3,400,000	$ 2,656,000
Taiwan Air Cargo Terminal	1,080,000	398,592	1,080,000	436,418	1,080,000	491,515
Cal Hotel Co., Ltd.	180,000	-	180,000	-	180,000	4,757
Taigerair Taiwan Co., Ltd.	1,068,500	412,150	919,742	438,740	916,785	437,329

h. Compensation of key management personnel

	For the Three Months Ended March 31	
	2017	2016
Short-term employee benefits	$ 13,172	$ 17,145
Post-employment benefits	972	804
	$ 14,144	$ 17,949

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

34. PLEDGED ASSETS

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

	March 31, 2017	December 31, 2016	March 31, 2016
Property, plant and equipment	$ 75,086,441	$ 77,847,771	$ 86,496,097
Restricted assets	310,171	323,028	132,657
	$ 75,396,612	$ 78,170,799	$ 86,628,754

The above restricted assets included pledged time deposits and demand deposits restricted due to loan agreements.

35. COMMITMENTS AND CONTINGENT LIABILITIES

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

a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate purchase prices of US$3,933,235 thousand and US$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of March 31, 2017, five of the aircrafts had been handed over to the Company, and the total list price of the remaining nine aircrafts was US$2,557,978 thousand, which has been paid in the amount of US$567,558 thousand (recognized as prepayments for aircrafts).

b. Tigerair Taiwan entered into a lease contract for four A320-200 aircrafts with a 10-year lease term on July, November and December 2015. Three of the four aircrafts were delivered. The expected delivery date of the remaining aircraft is in December 2017.

c. Taiwan Air Cargo Terminal Co. (“TACT”) signed a terminal construction contract with the Civil Aeronautics Administrations (“CAA”) on January 14, 2000. The chartered operation period (“COP”) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT’s board of directors in 2003. The total estimated expense of the construction project was $8,490,000 thousand. The designated start of the project was from 2004 and the construction began in 2008. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

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

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

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	$ 552,285
Chen-Jia Construction Co.	Paint steel columns and roof renewal works Contract	86,380

As of March 31, 2017, the cumulated consultant service expense and construction equipment had amounted to $464,642 thousand (VAT included) and $4,969,858 thousand (VAT included), respectively. Upon completion of the projects, the amount of $459,850 thousand (VAT included) and $4,891,873 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

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

d. TACT should pay royalties to Taoyuan Airport Corporation and CAA during the chartered operation period. The calculation is based on annual sales (including operating revenue and nonoperating revenue but excluding the rental revenue from specific district), and Taoyuan Airport Corporation and CAA has the option to adjust the royalty rates every 3 years starting from the date of transfer of the chartered operation right on the basis of actual revenue and expenditure. These rates were listed as follows:

Annual Operating Amount	Royalty Rate
Below $2 billion	6.00%
Above $2 billion but below $4 billion	8.00%
Above $4 billion but below $6 billion	10.00%
Above $6 billion but below $8 billion	12.00%
Above $8 billion but below $10 billion	14.00%
Above $10 billion but below $12 billion	16.00%
Above $12 billion	18.00%

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

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

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

   CAL Park should pay construction and operation security deposits of $100,000 thousand (using a refundable certificate deposit recognized under deposits-in). If CAL Park complies with the contract terms within three months after the initial operation date, half of the security deposits will be refunded interest free, and the remaining amount will be refunded within three months after the end of the operating period and the completion of asset transfer. In May 2011, CAL Park received the refunded security deposits of $50,000 thousand without interest.

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

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

f. Taiwan Aircraft Maintenance Company contracted out Ronggong Engineering Co., Ltd. for a construction repair project. The contract expiration date is June 15, 2018, and estimated total cost of the project is $1.906 billion. As of March 31, 2017, $24,616 thousand was paid (recognized as construction in progress).

g. The Group has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action lawsuit filed at the U.S. Northern District Court of California by a group of passengers who alleged that there was an antitrust violation in December 2007. The Company has properly joined the defendants' Joint Defense Group.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

March 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 325,318	30.3030	$ 9,858,124
EUR	16,012	32.3625	518,177
HKD	200,161	3.9063	781,889
JPY	5,447,204	0.2708	1,475,099
CNY	465,803	4.3995	2,049,302
Financial liabilities			
Monetary items			
USD	298,117	30.3030	9,033,839
EUR	5,028	32.3625	162,717
HKD	85,719	3.9063	334,840
JPY	5,294,297	0.2708	1,433,611
CNY	139,575	4.3995	614,056

December 31, 2016

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

March 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 552,552	32.1543	$ 17,766,940
EUR	16,459	36.3636	598,496
HKD	276,464	4.1511	1,147,628
JPY	1,698,945	0.2864	516,426
CNY	1,144,666	4.9801	5,700,544
Financial liabilities			
Monetary items			
USD	238,219	32.1543	7,659,750
EUR	6,028	36.3636	219,206
HKD	74,542	4.1511	309,433
JPY	4,781,895	0.2864	1,369,527
CNY	157,067	4.9801	782,209

For the three months ended March 31, 2017 and 2016, net foreign exchange losses were $140,600 thousand and $234,787 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

37. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:

1) Financing provided: None

2) Endorsements/guarantees provided: Table 1 (attached)

3) Marketable securities held: Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

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

6) Disposals of individual real estate at cost or prices of at least NT$100 million or 20% of the paid-in capital: None

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 3 (attached)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached).

9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 5 (attached).

10) Derivative financial transactions (Notes 7 and 9)

b. Investments in mainland China: Table 6 (attached)

c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 7 (attached)

38. SEGMENT INFORMATION

Segment Information

The Company mainly engages in air transportation services for passengers, cargo and others. Its major revenue-generating asset is its aircraft fleet, which is used jointly for passenger and cargo services. Thus, the Company's sole reportable segment is its flight segment. For operating segment reporting in the consolidated financial statements, the reportable segment of the Company and its subsidiaries comprises the flight and the non-flight business departments. The accounting policy applied for reportable segments is consistent with the policy mentioned in Note 4.

For the three months ended March 31, 2017, financial information of segment was listed below:

	For the Three Months Ended March 31, 2017			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	$ 35,393,406	$ 1,892,978	$ (1,489,919)	$ 35,796,465
Operation profit and loss	$ (565,513)	$ 196,083	$ -	$ (369,430)
Interest revenue				42,747
Investment income accounted for by the equity method				119,280
Revenue				44,164
Financial costs				(326,690)
Expenses				(3,026,961)
Loss before income tax				$ (3,516,890)
Identifiable assets	$ 131,360,784	$ 8,755,749	$ -	$ 140,116,533
Investments accounted for by the equity method				2,864,853
Assets				77,189,735
Total assets				$ 220,171,121

	For the Three Months Ended March 31, 2016			
	Air Transportation	**Others**	**Adjustments and Write-offs**	**Total**
Operating revenue	$ 34,645,086	$ 1,907,887	$ (1,553,950)	$ 34,999,023
Operation profit and loss	$ 2,134,237	$ 236,977	$ -	$ 2,371,214
Interest revenue				91,229
Investment income accounted for by the equity method				123,610
Revenue				48,047
Financial costs				(345,266)
Expenses				(422,472)
Profit before income tax				$ 1,866,362
Identifiable assets	$ 120,961,758	$ 9,618,832	$ -	$ 130,580,590
Investments accounted for by the equity method				2,975,485
Assets				84,964,297
Total assets				$ 218,520,372

TABLE 1

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	$ 10,346,516	$ 3,850,000	$ 3,850,000	$ 2,796,000	$ -	7.44	$ 25,866,290	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	10,346,516	1,080,000	1,080,000	398,592	-	2.09	25,866,290	Y	N	N
		Cal Hotel	100% subsidiary	10,346,516	180,000	180,000	-	-	0.35	25,866,290	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	10,346,516	1,079,101	1,068,500	412,150	-	2.07	25,866,290	Y	N	N

Note 1: Based on the Group's guidelines, the maximum amount of guarantee to an individual counter-party is up to 20% of the Group's stockholders' equity.

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2017				Note
				Shares/Units	Carrying Amount	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines (the "Company")	Stock							
	Everest Investment Holdings Ltd. - common stock	-	Financial assets carried at cost - noncurrent	1,359,368	$ 52,704	13.59	$ 64,474	Note 1
	Everest Investment Holdings Ltd. - preferred stock	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	21,487	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	11,344	-
Mandarin Airlines	Stock							
	China Airlines	Parent company	Available-for-sale financial assets - current	2,074,628	21,887	-	21,887	-
	Beneficial certificates							
	Fuh Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	15,302,543	182,768	-	182,768	-
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	30,390	-	30,390	-
Cal-Asia Investment	Stock							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	-	5.83	(46,386)	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	19,101	5.45	23,341	Note 2
Sabre Travel Network (Taiwan)	Beneficial certificates							
	Mirae Asset Solomon Money Market Fund	-	Financial assets at fair value through profit or loss - current	265,726	3,323	-	3,323	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,637,003	57,629	-	57,629	-
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,360,663	54,901	-	54,901	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,679,785	70,950	-	70,950	-
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	364,915	64,539	-	64,539	-
Taiwan Airport Services	Stock							
	TransAsia Airways	-	Available-for-sale financial assets - noncurrent	2,277,786	-	0.40	-	-
Hwa Hsia	Stock							
	China Airlines	Parent company	Available-for-sale financial assets - current	814,152	8,589	-	8,589	-
	Beneficial certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,687	-	4,687	-

Note 1: The subsidiary's net asset value was $64,474 thousand, which included common stock and preferred stock as of and for the year ended December 31, 2016.

Note 2: The net asset value was calculated using the unaudited financial statements for the one month ended January 31, 2017, because the investee's audited financial statements were not prepared on time.

TABLE 3

CHINA AIRLINES, LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	Sale	$ (568,057)	1.77	2 months	$ -	-	$ 461,339	5.18	-
	China Pacific Catering Services	Equity-method investee	Purchase	428,109	1.42	90 days	-	-	(460,760)	(35.20)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	284,106	0.94	40 days	-	-	(330,067)	(25.22)	-
	Taiwan Air Cargo Terminal	Subsidiary	Purchase	105,039	0.35	30 days	-	-	(42,458)	(3.24)	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	$ 461,339	Note	$ -	-	$ 303,623	$ -
Mandarin Airlines	China Airlines	Parent company	264,731	Note	-	-	264,731	-
China Pacific Catering Services	China Airlines	Parent company	460,760	3.93	-	-	137,942	-
Taoyuan International Airport Service	China Airlines	Parent company	330,067	3.48	-	-	179,289	-

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2017			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				March 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership	Carrying Amount			
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	$ 1,500,000	$ 1,500,000	150,000,000	100.00	$ 1,534,849	$ 5,475	$ 5,475	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,074,582	(46,135)	(43,363)	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,277,292	28,515	15,398	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,178,710	10,165	10,165	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	690,064	100,166	51,084	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	672,579	47,735	23,390	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	433,063	6,555	6,555	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	474,199	38,004	35,698	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	495,566	45,980	9,196	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	295,436	66,365	16,259	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	234,362	21,757	10,302	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	232,020	49,290	17,636	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	407,693	20,318	20,318	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	214,745	214,745	18,633,937	26.00	266,716	33,797	8,787	
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	171,347	7,816	4,299	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	73,178	1,643	1,643	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	24,934	(530)	(530)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	27,710	(2,508)	(1,279)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,813	1,581	395	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	452,860	62,216	55,234	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	160,000	160,000	16,000,000	100.00	99,584	(10,545)	(10,545)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	50,318	62,216	6,222	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	5,331	21,757	234	-
Cal-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK$ 3,329	HK$ 3,329	1,050,000	35.00	41,546	2,494	873	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	336,173	5,425	5,425	Note 3

Note 1: Adopted the treasury stock method in recognizing investment income or loss.

Note 2: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 3: The Company does not issue stocks because it is a limited company.

TABLE 6

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars/Renminbi/U.S. Dollars, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of March 31, 2017	Accumulated Inward Remittance of Earnings as of March 31, 2017
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 987,593 (RMB 224,480)	Indirect (Note 1)	$ 126,848 (US$ 4,186)	$ -	$ -	$ 126,848 (US$ 4,186)	$ 15,149 (RMB 3,326)	14.00	$ 2,121 (RMB 466)	$ 223,960 (RMB 50,906)	$ 124,212 (US$ 4,099) (Note 4)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	61,593 (RMB 14,000)	Indirect (Note 1)	59,013 (US$ 1,947)	-	-	59,013 (US$ 1,947)	25,740 (RMB 5,652)	14.00	3,603 (RMB 791)	112,775 (RMB 25,634)	26,525 (US$ 875) (Note 4)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,117,879 (US$ 36,890)	Indirect (Note 1)	65,188 (US$ 2,151)	-	-	65,188 (US$ 2,151)	-	5.83	-	-	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	353,424 (US$ 11,663)	Indirect (Note 1)	19,273 (US$ 636)	-	-	19,273 (US$ 636)	-	5.45	-	19,101 (RMB 4,342)	
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	93,939 (US$ 3,100)	Indirect (Note 2)	7,515 (US$ 248)	-	-	7,515 (US$ 248)	-	8.00	-	-	
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	30,303 (US$ 1,000)	Indirect (Note 3)	5,197 (US$ 172)	-	-	5,197 (US$ 172)	-	-	-	-	

Accumulated Investment in Mainland China as of March 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
$283,034 (US$9,340)	$656,003 (Note 5)	$32,284,258 (Note 6)

(Continued)

Taiwan Airport Services

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of March 31, 2017	Accumulated Repatriation of Investment Income as of March 31, 2017
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 987,593 (RMB 224,480)	Indirect (Note 7)	$ 124,485 (US$ 4,108)	$ -	$ -	$ 124,485 (US$ 4,108)	$ 15,149 (RMB 3,326)	14	$ 1,989 (RMB 466)	$ 222,600 (RMB 50,597)	$ 115,333 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	61,593 (RMB 14,000)	Indirect (Note 7)	59,394 (US$ 1,927)	-	-	58,394 (US$ 1,927)	25,740 (RMB 5,652)	14	3,433 (RMB 791)	112,823 (RMB 25,645)	42,636 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of March 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$180,152 (US$5,945)	$180,152 (US$5,945)	$296,909 (Note 6)

Note 1: China Airlines, Ltd. the "Company" invested in Cal-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: The Company invested in China Aircraft Services, which in turn, invested in a company located in mainland China.

Note 3: Cal-Asia Investment invested in Eastern United International Logistics (Holdings), which in turn, invested in a company located in mainland China. The investee company had disposed, and the Company was preparing for declaration to Investment commission.

Note 4: As of March 31, 2017, the inward remittance of earnings amounted to US$2,801,749 and US$875,330.

Note 5: The amount comprised US$19,828,324, RMB4,200,000 and NT$36,666,667.

Note 6: The limit stated in the Investment Commission's regulation, "The Review Principle of Investment or Technical Cooperation in mainland China," is the larger of the Company's net asset value or 60% of the consolidated net asset value.

Note 7: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 8: The RMB and U.S. dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Mandarin Airlines	a	Passenger revenue	$ 486,366	The same as ordinary transactions	1.36
		Taoyuan International Airport Services	a	Terminal and landing fees	284,106	The same as ordinary transactions	0.79
		Taiwan Air Cargo Terminal	a	Other operating costs	105,039	The same as ordinary transactions	0.29
		Mandarin Airlines	a	Accounts receivable - related parties	461,339	The same as ordinary transactions	0.21
		Mandarin Airlines	a	Accounts payable - related parties	264,731	The same as ordinary transactions	0.12
		Taoyuan International Airport Services	a	Accounts payable - related parties	330,067	The same as ordinary transactions	0.15
		Mandarin Airlines	a	Bonds payable - noncurrent	250,000	The same as ordinary transactions	0.11
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	105,039	The same as ordinary transactions	0.29
2	Mandarin Airlines	China Airlines, Ltd.	b	Flight operation costs	486,366	The same as ordinary transactions	1.36
		China Airlines, Ltd.	b	Accounts receivable - related parties	264,731	The same as ordinary transactions	0.12
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes and accounts payable - related parties	461,339	The same as ordinary transactions	0.21
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	284,106	The same as ordinary transactions	0.79
		China Airlines, Ltd.	b	Accounts receivable - related parties	330,067	The same as ordinary transactions	0.15

Note 1: Three kinds of business relationships between China Airlines, Ltd. and its subsidiaries were as follows:

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

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