

**China Airlines, Ltd. and Subsidiaries**

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2016 and 2015 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

We have reviewed the accompanying balance sheets of China Airlines, Ltd. and subsidiaries as of March 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2016 and 2015. 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 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, 2016 and 2015, total combined assets of these non-significant subsidiaries were NT\$15,401,755 thousand and NT\$15,615,224 thousand, respectively, representing 7.05% and 6.81%, respectively, of the total consolidated assets, and total combined liabilities of these subsidiaries were NT\$6,508,560 thousand and NT\$6,928,731 thousand, respectively, representing 4.16% and 3.97%, respectively, of the total consolidated liabilities; for the three months ended March 31, 2016 and 2015, combined comprehensive income of these subsidiaries were NT\$197,642 thousand and NT\$148,516 thousand, respectively, representing 13.72% and 6.13%, respectively, of the consolidated total comprehensive income. As of March 31, 2016 and 2015, investments accounted for by the equity method were NT\$2,975,485 thousand and NT\$2,914,431 thousand, respectively; for the three months ended March 31, 2016 and 2015, share of the profit of associates and joint ventures were NT\$123,610 thousand and NT\$116,316 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 and 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.

May 12, 2016

Notice to Readers

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

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

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

| ASSETS   | March 31, 2016<br>(Reviewed) |            | December 31, 2015<br>(Audited) |            | March 31, 2015<br>(Reviewed) |            |
|--|------------------------------|------------|--------------------------------|------------|------------------------------|------------|
|  | Amount                       | %          | Amount                         | %          | Amount                       | %          |
| <b>CURRENT ASSETS</b>  |                              |            |                                |            |                              |            |
| Cash and cash equivalents (Notes 4, 6 and 19)  | \$ 22,745,106                | 10         | \$ 23,491,085                  | 11         | \$ 20,752,727                | 9          |
| Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)       | 418,644                      | -          | 542,326                        | -          | 350,547                      | -          |
| Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)                     | 31,205                       | -          | 52,582                         | -          | 62,973                       | -          |
| Receivables:   |                              |            |                                |            |                              |            |
| Notes and accounts, net (Notes 4, 5 and 11)  | 7,148,855                    | 3          | 7,610,677                      | 3          | 9,343,879                    | 4          |
| Notes and accounts - related parties (Note 33)   | 5,388                        | -          | 3,874                          | -          | 10,472                       | -          |
| Other receivables  | 1,002,518                    | 1          | 1,032,622                      | 1          | 644,702                      | 1          |
| Current tax assets (Notes 4 and 29)  | 16,489                       | -          | 9,849                          | -          | 7,631                        | -          |
| Inventories, net (Notes 4 and 12)  | 8,089,709                    | 4          | 8,300,398                      | 4          | 7,191,651                    | 3          |
| Noncurrent assets held for sale (Notes 4, 5 and 13)  | 670,455                      | -          | 670,455                        | -          | -                            | -          |
| Other assets - current (Notes 6 and 19)  | 4,372,146                    | 2          | 3,928,747                      | 2          | 2,255,687                    | 1          |
| <b>Total current assets</b>  | <b>44,500,515</b>            | <b>20</b>  | <b>45,642,615</b>              | <b>21</b>  | <b>40,620,269</b>            | <b>18</b>  |
| <b>NONCURRENT ASSETS</b>   |                              |            |                                |            |                              |            |
| Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)    | -                            | -          | 1,710                          | -          | 1,177                        | -          |
| Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 32) | 17,113                       | -          | 19,080                         | -          | 26,163                       | -          |
| Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 32)                  | -                            | -          | 11,216                         | -          | -                            | -          |
| Financial assets carried at cost - noncurrent, net of current portion (Notes 10 and 32)      | 222,256                      | -          | 223,911                        | -          | 468,710                      | -          |
| Investments accounted for by the equity method (Notes 4 and 15)                              | 2,975,485                    | 1          | 2,877,777                      | 1          | 2,914,431                    | 1          |
| Property, plant and equipment (Notes 4, 5, 16 and 34)  | 127,935,480                  | 59         | 129,628,866                    | 58         | 139,220,801                  | 61         |
| Investment properties (Notes 4 and 17)   | 2,076,112                    | 1          | 2,076,182                      | 1          | 2,076,391                    | 1          |
| Other intangible assets (Notes 4 and 18)   | 1,079,349                    | 1          | 1,009,678                      | 1          | 832,935                      | -          |
| Deferred income tax asset (Notes 4, 5 and 29)  | 6,875,284                    | 3          | 7,188,415                      | 3          | 8,009,602                    | 4          |
| Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)                                      | 32,838,779                   | 15         | 33,246,859                     | 15         | 35,026,146                   | 15         |
| <b>Total noncurrent assets</b>   | <b>174,019,858</b>           | <b>80</b>  | <b>176,283,694</b>             | <b>79</b>  | <b>188,576,356</b>           | <b>82</b>  |
| <b>TOTAL</b>   | <b>\$ 218,520,373</b>        | <b>100</b> | <b>\$ 221,926,309</b>          | <b>100</b> | <b>\$ 229,196,625</b>        | <b>100</b> |
| <b>LIABILITIES AND EQUITY</b>  |                              |            |                                |            |                              |            |
| <b>CURRENT LIABILITIES</b>   |                              |            |                                |            |                              |            |
| Short-term loans (Note 20)   | \$ 118,215                   | -          | \$ 173,289                     | -          | \$ 2,960,938                 | 1          |
| Short-term bills payable (Note 20)   | -                            | -          | 9,995                          | -          | 1,198,973                    | -          |
| Financial liability at fair value through profit or loss - current (Notes 4, 5, 7 and 32)    | 13,297                       | -          | -                              | -          | 18,381                       | -          |
| Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)                | 323,139                      | -          | 313,689                        | -          | 1,784,247                    | 1          |
| Notes and accounts payable   | 710,351                      | -          | 1,229,575                      | 1          | 956,802                      | -          |
| Notes and accounts payable - related parties (Note 33)                                       | 491,009                      | -          | 493,754                        | -          | 465,577                      | -          |
| Other payable (Note 23)  | 10,618,410                   | 5          | 12,296,548                     | 5          | 10,587,049                   | 5          |
| Current tax liabilities (Notes 4 and 29)   | 116,343                      | -          | 75,645                         | -          | 113,949                      | -          |
| Provisions - current (Notes 4, 5 and 25)   | 30,798                       | -          | 20,186                         | -          | 10,794                       | -          |
| Deferred revenue - current (Notes 4, 5 and 24)   | 11,540,960                   | 5          | 13,112,086                     | 6          | 10,419,396                   | 5          |
| Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32) | 7,655,696                    | 4          | 4,944,106                      | 2          | 1,800,000                    | 1          |
| Loans and debts - current portion (Notes 20, 32 and 34)                                      | 27,911,852                   | 13         | 30,092,112                     | 14         | 18,616,394                   | 8          |
| Capital lease obligations - current portion (Notes 4, 22, 32 and 34)                         | 1,457,957                    | 1          | 1,457,957                      | 1          | 2,633,433                    | 1          |
| Other current liabilities  | 4,348,474                    | 2          | 4,001,510                      | 2          | 4,161,519                    | 2          |
| <b>Total current liabilities</b>   | <b>65,336,501</b>            | <b>30</b>  | <b>68,220,452</b>              | <b>31</b>  | <b>55,727,452</b>            | <b>24</b>  |
| <b>NONCURRENT LIABILITIES</b>  |                              |            |                                |            |                              |            |
| Financial liability at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32) | -                            | -          | -                              | -          | 67                           | -          |
| Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)             | 6,640                        | -          | 11,291                         | -          | 7,791                        | -          |
| Bonds payable - noncurrent (Notes 4, 21, 27 and 32)  | 8,200,000                    | 4          | 10,900,000                     | 5          | 16,963,744                   | 7          |
| Loans and debts - noncurrent (Notes 20, 32 and 34)   | 58,987,517                   | 27         | 57,691,505                     | 26         | 76,550,370                   | 33         |
| Provisions - noncurrent (Notes 4, 5 and 25)  | 6,176,767                    | 3          | 6,167,295                      | 3          | 4,703,541                    | 2          |
| Deferred tax liabilities (Notes 4 and 29)  | 325,040                      | -          | 340,681                        | -          | 395,002                      | -          |
| Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)                              | 4,830,828                    | 2          | 5,197,147                      | 2          | 6,690,034                    | 3          |
| Deferred revenue - noncurrent (Notes 4, 5 and 24)  | 1,789,354                    | 1          | 1,863,929                      | 1          | 1,850,447                    | 1          |
| Accrued pension costs (Notes 4, 5 and 26)  | 10,448,204                   | 5          | 10,553,574                     | 5          | 10,144,581                   | 5          |
| Other noncurrent liabilities   | 432,900                      | -          | 423,892                        | -          | 1,374,075                    | 1          |
| <b>Total noncurrent liabilities</b>  | <b>91,197,250</b>            | <b>42</b>  | <b>93,149,314</b>              | <b>42</b>  | <b>118,679,652</b>           | <b>52</b>  |
| <b>Total liabilities</b>   | <b>156,533,751</b>           | <b>72</b>  | <b>161,369,766</b>             | <b>73</b>  | <b>174,407,104</b>           | <b>76</b>  |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)</b>                        |                              |            |                                |            |                              |            |
| Capital stock  | 54,708,901                   | 25         | 54,708,901                     | 25         | 53,700,079                   | 24         |
| Capital surplus  | 798,415                      | -          | 798,415                        | -          | 2,162,993                    | 1          |
| Retained earnings (accumulated deficit)  |                              |            |                                |            |                              |            |
| Unappropriated retained earnings (accumulated deficit)                                       | 4,331,012                    | 2          | 2,872,235                      | 1          | (2,020,357)                  | (1)        |
| Other equity   | (130,554)                    | -          | (66,283)                       | -          | (1,360,616)                  | (1)        |
| Treasury shares  | (43,372)                     | -          | (43,372)                       | -          | (43,372)                     | -          |
| <b>Total equity attributable to owners of the Company</b>                                    | <b>59,664,402</b>            | <b>27</b>  | <b>58,269,896</b>              | <b>26</b>  | <b>52,438,727</b>            | <b>23</b>  |
| <b>NONCONTROLLING INTERESTS (Note 27)</b>  | <b>2,322,220</b>             | <b>1</b>   | <b>2,286,647</b>               | <b>1</b>   | <b>2,350,794</b>             | <b>1</b>   |
| <b>Total equity</b>  | <b>61,986,622</b>            | <b>28</b>  | <b>60,556,543</b>              | <b>27</b>  | <b>54,789,521</b>            | <b>24</b>  |
| <b>TOTAL</b>   | <b>\$ 218,520,373</b>        | <b>100</b> | <b>\$ 221,926,309</b>          | <b>100</b> | <b>\$ 229,196,625</b>        | <b>100</b> |

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

(With Deloitte & Touche review report dated May 12, 2016)

# 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 |            |                   |            |
|---|-------------------------------------|------------|-------------------|------------|
|   | 2016                                |            | 2015              |            |
|   | Amount                              | %          | Amount            | %          |
| REVENUES (Notes 4, 28 and 33)   | \$ 34,999,023                       | 100        | \$ 37,163,905     | 100        |
| COSTS (Notes 4, 9, 12, 25, 26, 28 and 33)   | <u>29,250,258</u>                   | <u>83</u>  | <u>31,447,329</u> | <u>85</u>  |
| GROSS PROFIT  | 5,748,765                           | 17         | 5,716,576         | 15         |
| OPERATING EXPENSES (Notes 4, 26 and 28)   | <u>3,377,551</u>                    | <u>10</u>  | <u>3,156,362</u>  | <u>8</u>   |
| OPERATING PROFIT  | <u>2,371,214</u>                    | <u>7</u>   | <u>2,560,214</u>  | <u>7</u>   |
| NONOPERATING INCOME AND LOSS  |                                     |            |                   |            |
| Other income (Note 28)  | 156,044                             | -          | 263,324           | 1          |
| Other gains and losses (Notes 9, 16 and 28)                                       | (439,240)                           | (1)        | (138,648)         | (1)        |
| Finance cost (Notes 9 and 28)   | (345,266)                           | (1)        | (484,854)         | (1)        |
| Share of the profit of associates and joint ventures<br>(Note 15)                 | <u>123,610</u>                      | <u>-</u>   | <u>116,316</u>    | <u>-</u>   |
| Total nonoperating income and loss  | <u>(504,852)</u>                    | <u>(2)</u> | <u>(243,862)</u>  | <u>(1)</u> |
| PRETAX PROFIT   | 1,866,362                           | 5          | 2,316,352         | 6          |
| INCOME TAX EXPENSE (Notes 4, 5 and 29)  | <u>358,897</u>                      | <u>1</u>   | <u>434,148</u>    | <u>1</u>   |
| NET INCOME  | <u>1,507,465</u>                    | <u>4</u>   | <u>1,882,204</u>  | <u>5</u>   |
| OTHER COMPREHENSIVE INCOME (LOSS)   |                                     |            |                   |            |
| Items that may be reclassified subsequently to profit<br>or loss:                 |                                     |            |                   |            |
| Exchange differences on translating foreign<br>operations (Notes 4 and 27)        | (50,373)                            | -          | (22,933)          | -          |
| Unrealized gain (loss) on available-for-sale<br>financial assets (Notes 4 and 27) | (1,967)                             | -          | (2,718)           | -          |
| Cash flow hedges (Notes 4 and 27)   | (25,066)                            | -          | 680,183           | 2          |

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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)

|   | <b>For the Three Months Ended March 31</b> |          |                     |          |
|---|--|----------|---------------------|----------|
|   | <b>2016</b>                                |          | <b>2015</b>         |          |
|   | <b>Amount</b>                              | <b>%</b> | <b>Amount</b>       | <b>%</b> |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (Notes 4 and 27) | \$ (987)                                   | -        | \$ -                | -        |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)                                  | <u>11,191</u>                              | <u>-</u> | <u>(112,218)</u>    | <u>-</u> |
| Other comprehensive income (loss) for the year, net of income tax   | <u>(67,202)</u>                            | <u>-</u> | <u>542,314</u>      | <u>2</u> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>  | <u>\$ 1,440,263</u>                        | <u>4</u> | <u>\$ 2,424,518</u> | <u>7</u> |
| <b>NET INCOME ATTRIBUTABLE TO:</b>  |  |          |                     |          |
| Owner of the Company  | \$ 1,463,951                               | 4        | \$ 1,850,379        | 5        |
| Non-controlling interests   | <u>43,514</u>                              | <u>-</u> | <u>31,825</u>       | <u>-</u> |
|   | <u>\$ 1,507,465</u>                        | <u>4</u> | <u>\$ 1,882,204</u> | <u>5</u> |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>  |  |          |                     |          |
| Owner of the Company  | \$ 1,399,680                               | 4        | \$ 2,395,461        | 7        |
| Non-controlling interests   | <u>40,583</u>                              | <u>-</u> | <u>29,057</u>       | <u>-</u> |
|   | <u>\$ 1,440,263</u>                        | <u>4</u> | <u>\$ 2,424,518</u> | <u>7</u> |
| <b>EARNING PER SHARE (NEW TAIWAN DOLLARS; Note 30)</b>  |  |          |                     |          |
| Basic   | <u>\$ 0.27</u>                             |          | <u>\$ 0.35</u>      |          |
| Diluted   | <u>\$ 0.26</u>                             |          | <u>\$ 0.33</u>      |          |

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

(With Deloitte & Touche review report dated May 12, 2016)

(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 |                     |   |  |   |                       |                                      | Total                | Non-controlling Interests | Total Equity         |
|--|--|---------------------|---|--|---|-----------------------|--------------------------------------|----------------------|---------------------------|----------------------|
|  | Share Capital                                | Capital Surplus     | Retained Earnings<br>Unappropriated Earnings<br>(Accumulated Deficit) | Exchange Differences on Translating Foreign Operations | Other Equity<br>Unrealized Gain (Loss) on Available-for-sale Financial Assets | Cash Flow Hedges      | Treasury Shares Held by Subsidiaries |                      |                           |                      |
| BALANCE AT JANUARY 1, 2015   | \$ 52,491,666                                | \$ 1,992,415        | \$ (3,864,876)  | \$ 99,852  | \$ 4,015  | \$ (2,009,565)        | \$ (43,372)                          | \$ 48,670,135        | \$ 2,326,973              | \$ 50,997,108        |
| Effect of retrospective application and retrospective restatement  | -  | -                   | (5,860)   | -  | -   | -                     | -                                    | (5,860)              | (5,236)                   | (11,096)             |
| BALANCE AT JANUARY 1, 2015 AS RESTATED   | <u>52,491,666</u>                            | <u>1,992,415</u>    | <u>(3,870,736)</u>  | <u>99,852</u>  | <u>4,015</u>  | <u>(2,009,565)</u>    | <u>(43,372)</u>                      | <u>48,664,275</u>    | <u>2,321,737</u>          | <u>50,986,012</u>    |
| Convertible bonds converted to ordinary shares   | 1,208,413                                    | 170,578             | -   | -  | -   | -                     | -                                    | 1,378,991            | -                         | 1,378,991            |
| Net income for the three months ended March 31, 2015   | -  | -                   | 1,850,379   | -  | -   | -                     | -                                    | 1,850,379            | 31,825                    | 1,882,204            |
| Other comprehensive income (loss) for the three months ended March 31, 2015, net of income tax                   | -  | -                   | -   | (18,183)   | (1,287)   | 564,552               | -                                    | 545,082              | (2,768)                   | 542,314              |
| Total comprehensive income (loss) for the three months ended March 31, 2015                                      | -  | -                   | <u>1,850,379</u>  | <u>(18,183)</u>  | <u>(1,287)</u>  | <u>564,552</u>        | -                                    | <u>2,395,461</u>     | <u>29,057</u>             | <u>2,424,518</u>     |
| BALANCE AT MARCH 31, 2015  | <u>\$ 53,700,079</u>                         | <u>\$ 2,162,993</u> | <u>\$ (2,020,357)</u>   | <u>\$ 81,669</u>                                       | <u>\$ 2,728</u>   | <u>\$ (1,445,013)</u> | <u>\$ (43,372)</u>                   | <u>\$ 52,438,727</u> | <u>\$ 2,350,794</u>       | <u>\$ 54,789,521</u> |
| 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 acquisition 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                                      | -  | -                   | <u>1,463,951</u>  | <u>(41,924)</u>  | <u>(1,925)</u>  | <u>(20,422)</u>       | -                                    | <u>1,399,680</u>     | <u>40,583</u>             | <u>1,440,263</u>     |
| Cash dividend from subsidiaries paid to non-controlling interest   | -  | -                   | -   | -  | -   | -                     | -                                    | -                    | (462)                     | (462)                |
| BALANCE AT MARCH 31, 2016  | <u>\$ 54,708,901</u>                         | <u>\$ 798,415</u>   | <u>\$ 4,331,012</u>   | <u>\$ 116,035</u>                                      | <u>\$ (170)</u>   | <u>\$ (246,419)</u>   | <u>\$ (43,372)</u>                   | <u>\$ 59,664,402</u> | <u>\$ 2,322,220</u>       | <u>\$ 61,986,622</u> |

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

(With Deloitte & Touche review report dated May 12, 2016)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

|  | For the Three Months Ended<br>March 31 |                  |
|--|--|------------------|
|  | 2016                                   | 2015             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |                  |
| Income before income tax   | \$ 1,866,362                           | \$ 2,316,352     |
| Adjustments to reconcile to net cash generated from (used in)<br>operating activities: |  |                  |
| Depreciation expenses  | 4,267,927                              | 4,434,260        |
| Amortization expenses  | 23,312                                 | 15,468           |
| Bad-debt expense   | 10,785                                 | 5,540            |
| Net loss on fair value change of financial assets and liabilities held<br>for trading  | 25,374                                 | 6,885            |
| Interest income  | (91,229)                               | (107,241)        |
| Share of profit of associates and joint ventures                                       | (123,610)                              | (116,316)        |
| Gain on disposal of property, plant and equipment                                      | (3,395)                                | (1,780)          |
| Loss on inventories and property, plant and equipment                                  | 156,507                                | 118,297          |
| Net loss on foreign currency exchange  | 624,537                                | 185,775          |
| Finance costs  | 345,266                                | 484,854          |
| Recognition of provisions  | 600,052                                | 433,676          |
| Amortization of unrealized gain on sale-leaseback                                      | (3,628)                                | (3,628)          |
| Changes in operating assets and liabilities  |  |                  |
| (Increase) decrease in financial assets and liabilities held for trading               | 111,347                                | (107,042)        |
| Decrease in derivatives financial assets for hedging                                   | 13,096                                 | -                |
| Increase in notes and accounts receivable  | (314,199)                              | (133,376)        |
| Decrease in accounts receivable - related parties                                      | 67,282                                 | 162,905          |
| Increase in other receivables  | 26,228                                 | 183,692          |
| Decrease (increase) in inventories   | 111,184                                | (74,480)         |
| (Increase) decrease in other current assets  | (490,565)                              | 398,129          |
| (Decrease) increase in notes and accounts payable                                      | (207,305)                              | 659,412          |
| Decrease in accounts payable - related parties   | (254,060)                              | (141,439)        |
| Decrease in other payables   | (1,742,458)                            | (224,138)        |
| Decrease in deferred revenue   | (1,126,462)                            | (697,989)        |
| Decrease in provisions   | (567,391)                              | (11,918)         |
| Increase in other current liabilities  | 404,120                                | 496,451          |
| Decrease in accrued pension liabilities  | (116,749)                              | (56,835)         |
| Decrease in other liabilities  | (55,220)                               | (36,627)         |
| Cash generated from operations   | 3,557,108                              | 8,188,887        |
| Interest received  | 91,260                                 | 102,268          |
| Interest paid  | (439,257)                              | (616,664)        |
| Income tax paid  | (15,513)                               | (16,975)         |
|  | <u>3,193,598</u>                       | <u>7,657,516</u> |
| Net cash generated from operating activities   |  | (Continued)      |



# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

|   | For the Three Months Ended<br>March 31 |                      |
|---|--|----------------------|
|   | 2016                                   | 2015                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |                      |
| Payment for property, plant and equipment   | \$ (2,376,090)                         | \$ (759,467)         |
| Proceeds from disposal of property, plant and equipment                                       | 5,768                                  | 1,780                |
| Increase in refundable deposits   | (122,105)                              | (173,806)            |
| Decrease in refundable deposits   | 87,305                                 | 223,181              |
| Increase in prepayment for equipment  | (3,038,066)                            | (4,333,369)          |
| Increase in computer software cost  | (92,935)                               | (177,410)            |
| Decrease (increase) in restricted assets  | 436,108                                | (91,540)             |
| Refund in prepayment for aircraft   | <u>2,858,833</u>                       | <u>-</u>             |
| Net cash used in investing activities   | <u>(2,241,182)</u>                     | <u>(5,310,631)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |  |                      |
| Increase in short-term loans  | 20,000                                 | 9,030,025            |
| Decrease in short-term loans  | (75,000)                               | (10,520,000)         |
| Decrease in short-term bills payable  | (9,995)                                | (799,165)            |
| Repayments of bonds payable   | -                                      | (6,785,000)          |
| Proceeds of long-term debts and capital lease obligations                                     | 7,371,000                              | 11,721,586           |
| Repayments of long-term debts and capital lease obligations                                   | (8,550,385)                            | (4,402,817)          |
| Proceeds of guarantee deposits received   | 30,165                                 | 12,261               |
| Refund of guarantee deposits received   | (15,322)                               | (14,203)             |
| Proceeds of subsidiaries shares   | (8,084)                                | -                    |
| Cash dividend paid to non-controlling interest  | <u>(462)</u>                           | <u>-</u>             |
| Net cash used in financing activities   | <u>(1,238,083)</u>                     | <u>(1,757,313)</u>   |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE<br/>OF CASH HELD IN FOREIGN CURRENCIES</b> | <u>(460,312)</u>                       | <u>(304,996)</u>     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH<br/>EQUIVALENTS</b>                               | <u>(745,979)</u>                       | <u>284,576</u>       |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE<br/>YEAR</b>                             | <u>23,491,085</u>                      | <u>20,468,151</u>    |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                                       | <u>\$ 22,745,106</u>                   | <u>\$ 20,752,727</u> |

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

(With Deloitte & Touche review report dated May 12, 2016)

(Concluded)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 1. GENERAL INFORMATION

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

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, 2016, December 31, 2015 and March 31, 2015, CADF and NDF held 43.63%, 43.63% and 44.45% of the Company’s shares.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement were approved by the board of directors and authorized for issue on May 12, 2016.

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

- The International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) are issued by the International Accounting Standard Board (IASB) but not yet endorsed by the FSC.

The Company and entities controlled by the Company (collectively, the “Group”) have not applied the following IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC.

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Group should apply IFRS 15 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, amended and revised standards and interpretations.

| <u>New, Amended or Revised Standards and Interpretations</u> | <u>Effective Date<br/>Announced by IASB (Note 1)</u> |
|--|--|
| Annual Improvements to IFRSs 2010-2012 Cycle                 | July 1, 2014 (Note 2)                                |
| Annual Improvements to IFRSs 2011-2013 Cycle                 | July 1, 2014   |
| Annual Improvements to IFRSs 2012-2014 Cycle                 | January 1, 2016 (Note 3)                             |
| IFRS 9 “Financial Instruments”                               | January 1, 2018                                      |

(Continued)

| <u>New, Amended or Revised Standards and Interpretations</u>   | <u>Effective Date<br/>Announced by IASB (Note 1)</u> |
|--|--|
| 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                             |
| Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”                    | January 1, 2016                                      |
| Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”                                      | January 1, 2016                                      |
| IFRS 14 “Regulatory Deferral Accounts”   | January 1, 2016                                      |
| IFRS 15 “Revenue from Contracts with Customers”  | January 1, 2018                                      |
| IFRS 16 “Leases”   | January 1, 2019                                      |
| Amendment to IAS 1 “Disclosure Initiative”   | January 1, 2016                                      |
| 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 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”                   | January 1, 2016                                      |
| Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”   | January 1, 2016                                      |
| Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”  | July 1, 2014   |
| Amendment to IAS 27 “Equity Method in Separate Financial Statements”   | January 1, 2016                                      |
| Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”                      | January 1, 2014                                      |
| Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”                                       | January 1, 2014                                      |
| IFRIC 21 “Levies”  | January 1, 2014                                      |

(Concluded)

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

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

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

The initial application 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) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

### 3) IFRS 16 “Leases”

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

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

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

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

### 4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

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

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

sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

Except for the statement listed below, accounting policy adopted by this consolidated financial statements are same as 2015 consolidated financial statements.

##### **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 interim financial reports is less than disclosures required in a full set of annual financial reports.

##### **Basis of Consolidation**

###### Principles for preparing consolidated financial statements

The 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, 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, separately from the equity of the owners of the Company. 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. Proportion of ownership and main businesses of subsidiaries can be saw in Note 14 and Table 5.

##### **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 judgements, estimates and assumptions adopted by the consolidated financial statements are same as 2015 consolidated financial statements.

## 6. CASH AND CASH EQUIVALENTS

|   | March 31,<br>2016    | December 31,<br>2015 | March 31,<br>2015    |
|---|----------------------|----------------------|----------------------|
| Cash on hand and revolving fund                               | \$ 351,302           | \$ 478,223           | \$ 413,392           |
| Checking accounts and demand deposits                         | 7,844,273            | 6,070,236            | 6,340,346            |
| Cash equivalent   |                      |                      |                      |
| Time deposits with original maturities less than three months | 13,880,888           | 16,163,452           | 13,180,182           |
| Repurchase agreements collateralized by bonds                 | <u>668,643</u>       | <u>779,174</u>       | <u>818,807</u>       |
|   | <u>\$ 22,745,106</u> | <u>\$ 23,491,085</u> | <u>\$ 20,752,727</u> |

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

|   | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|---|-------------------|----------------------|-------------------|
| Bank balance  | 0%-1.11%          | 0%-1.5%              | 0%-2%             |
| Time deposits with original maturities less than three months | 0.3%-7.25%        | 0.27%-7.25%          | 0.3%-4%           |
| Repurchase agreements collateralized by bonds                 | 0.38%-0.46%       | 0.42%-0.51%          | 0.63%-0.8%        |

The amount of time deposits with original maturities more than three months for March 31, 2016, December 31, 2015 and March 31, 2015 were \$2,030,162 thousand, \$1,653,927 thousand and \$872,763 thousand, respectively, and the market rate intervals were 0.41%-1.23%, 0.295%-4.1% and 4%, which were recognized as other current assets. (Refer to Note 19).

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

|   | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|---|-------------------|----------------------|-------------------|
| <u>Financial assets held for trading - current</u>            |                   |                      |                   |
| Derivative financial instruments (not under hedge accounting) |                   |                      |                   |
| Foreign exchange forward contracts                            | \$ 12,393         | \$ 63,818            | \$ 20,284         |
| Non-derivative financial assets                               |                   |                      |                   |
| Beneficial certificates                                       | <u>406,251</u>    | <u>478,508</u>       | <u>330,263</u>    |
|   | <u>\$ 418,644</u> | <u>\$ 542,326</u>    | <u>\$ 350,547</u> |

(Continued)

|  | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|--|-------------------|----------------------|-------------------|
| <u>Financial assets held for trading - noncurrent</u>  |                   |                      |                   |
| Derivative financial instruments (not under hedge accounting)                                      |                   |                      |                   |
| Foreign exchange forward contracts   | \$ _____ -        | \$ <u>1,710</u>      | \$ <u>1,177</u>   |
| <u>Financial liabilities held for trading</u>  |                   |                      |                   |
| Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts |                   |                      |                   |
| Current  | \$ <u>13,297</u>  | \$ _____ -           | \$ <u>18,381</u>  |
| Noncurrent   | \$ _____ -        | \$ _____ -           | \$ <u>67</u>      |
|  |                   |                      | (Concluded)       |

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

|                          | Currency | Maturity Date      | Notional Amount<br>(In Thousands) |
|--------------------------|----------|--------------------|-----------------------------------|
| <u>March 31, 2016</u>    |          |                    |                                   |
| Buy forward contracts    | NTD/USD  | 2016.4.1-2017.1.26 | NTD1,993,569/USD62,000            |
| <u>December 31, 2015</u> |          |                    |                                   |
| Buy forward contracts    | NTD/USD  | 2016.1.8-2017.1.26 | NTD3,276,316/USD99,600            |
| <u>March 31, 2015</u>    |          |                    |                                   |
| Buy forward contracts    | NTD/USD  | 2015.4.1-2017.1.26 | NTD4,405,660/USD140,100           |

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                    | <u>March 31, 2016</u> |                | <u>December 31, 2015</u> |                | <u>March 31, 2015</u> |                |
|--------------------|-----------------------|----------------|--------------------------|----------------|-----------------------|----------------|
|                    | Carrying Value        | % of Ownership | Carrying Value           | % of Ownership | Carrying Value        | % of Ownership |
| <u>Non-current</u> |                       |                |                          |                |                       |                |
| Domestic market    |                       |                |                          |                |                       |                |
| TransAsia Airways  | \$ <u>17,113</u>      | -              | \$ <u>19,080</u>         | -              | \$ <u>26,163</u>      | -              |



## 9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

|  | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015   |
|--|-------------------|----------------------|---------------------|
| <u>Derivative financial assets under hedge accounting</u>      |                   |                      |                     |
| Foreign exchange forward contracts                             | \$ 25,810         | \$ 51,060            | \$ -                |
| Currency options   | 5,355             | 12,403               | 26,459              |
| Fuel options   | <u>40</u>         | <u>335</u>           | <u>36,514</u>       |
|  | <u>\$ 31,205</u>  | <u>\$ 63,798</u>     | <u>\$ 62,973</u>    |
| Current  | \$ 31,205         | \$ 52,582            | \$ 62,973           |
| Non-current  | <u>-</u>          | <u>11,216</u>        | <u>-</u>            |
|  | <u>\$ 31,205</u>  | <u>\$ 63,798</u>     | <u>\$ 62,973</u>    |
| <u>Derivative financial liabilities under hedge accounting</u> |                   |                      |                     |
| Interest rate swaps  | \$ 12,457         | \$ 12,702            | \$ 7,791            |
| Foreign exchange forward contracts                             | 157,009           | -                    | -                   |
| Currency options   | 51,705            | 12,660               | 8,348               |
| Fuel options   | <u>108,608</u>    | <u>299,618</u>       | <u>1,775,899</u>    |
|  | <u>\$ 329,779</u> | <u>\$ 324,980</u>    | <u>\$ 1,792,038</u> |
| Current  | \$ 323,139        | \$ 313,689           | \$ 1,784,247        |
| Non-current  | <u>6,640</u>      | <u>11,291</u>        | <u>7,791</u>        |
|  | <u>\$ 329,779</u> | <u>\$ 324,980</u>    | <u>\$ 1,792,038</u> |

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

### a. Interest rate swaps

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

| Notional Amount<br>(In Thousands) | Maturity Date        | Range of<br>Interest Rates<br>Paid | Range of Interest Rates<br>Received |
|-----------------------------------|----------------------|------------------------------------|-------------------------------------|
| <u>March 31, 2016</u>             |                      |                                    |                                     |
| NT\$3,000,000                     | 2016.11.28-2017.6.22 | 1.01%-1.14%                        | TAIBOR Rate                         |
| <u>December 31, 2015</u>          |                      |                                    |                                     |
| NT\$3,000,000                     | 2016.11.28-2017.6.22 | 1.01%-1.14%                        | TAIBOR Rate                         |

(Continued)

| <b>Notional Amount<br/>(In Thousands)</b> | <b>Maturity Date</b> | <b>Range of<br/>Interest Rates<br/>Paid</b> | <b>Range of Interest Rates<br/>Received</b> |
|---|----------------------|---|---|
| <u>March 31, 2015</u>                     |                      |   |   |
| NT\$4,500,000                             | 2015.5.24-2017.6.22  | 0.9%-1.14%                                  | TAIBOR Rate<br>(Concluded)                  |

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

b. Currency options

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

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

|                          | <b>Currency</b> | <b>Maturity Date</b> | <b>Notional Amount<br/>(In Thousands)</b> |
|--------------------------|-----------------|----------------------|---|
| <u>March 31, 2016</u>    |                 |                      |   |
| 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                    |
| <u>December 31, 2015</u> |                 |                      |   |
| Buy USD call option      | JPY/USD         | 2016.1.8-2016.12.9   | JPY3,446,570/USD28,400                    |
| Sell USD put option      | JPY/USD         | 2016.1.8-2016.12.9   | JPY3,364,604/USD28,400                    |
| <u>March 31, 2015</u>    |                 |                      |   |
| Buy USD call option      | JPY/USD         | 2015.4.15-2015.11.18 | JPY3,715,310/USD31,200                    |
| Sell USD put option      | JPY/USD         | 2015.4.15-2015.11.18 | JPY3,594,675/USD31,200                    |

c. Fuel options

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

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

|                       | <b>Currency</b> | <b>Maturity Date</b> | <b>Notional Amount<br/>(In Thousands)</b> |
|-----------------------|-----------------|----------------------|---|
| <u>March 31, 2016</u> |                 |                      |   |
| 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                                |

(Continued)

|                          | <b>Currency</b> | <b>Maturity Date</b> | <b>Notional Amount<br/>(In Thousands)</b> |
|--------------------------|-----------------|----------------------|---|
| <u>December 31, 2015</u> |                 |                      |   |
| Buy fuel call option     | USD             | 2016.1.5-2016.12.7   | NTD335                                    |
| Sell fuel put option     | USD             | 2016.1.5-2016.12.7   | NTD299,618                                |
| <u>March 31, 2015</u>    |                 |                      |   |
| Buy fuel call option     | USD             | 2015.4.30-2016.3.31  | NTD36,514                                 |
| Sell fuel put option     | USD             | 2015.4.30-2016.3.31  | NTD1,775,899                              |
|                          |                 |                      | (Concluded)                               |

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

d. Foreign exchange forward

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

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

|                          | <b>Currency</b> | <b>Maturity Date</b> | <b>Notional Amount<br/>(In Thousands)</b> |
|--------------------------|-----------------|----------------------|---|
| <u>March 31, 2016</u>    |                 |                      |   |
| Buy forward contracts    | NTD/USD         | 2016.4.1-2018.3.16   | NTD6,462,532/USD200,882                   |
| <u>December 31, 2015</u> |                 |                      |   |
| Buy forward contracts    | NTD/USD         | 2016.1.18-2017.5.23  | NTD1,076,882/USD32,920                    |

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

|                                    | <b>For the Three Months Ended<br/>March 31</b> |                     |
|------------------------------------|--|---------------------|
|                                    | <b>2016</b>                                    | <b>2015</b>         |
| Increase in operating cost         | \$ (248,546)                                   | \$ (971,388)        |
| Increase in finance cost           | (1,279)  | (2,199)             |
| Other foreign exchange gain (loss) | <u>(216)</u>                                   | <u>18,958</u>       |
|                                    | <u>\$ (250,041)</u>                            | <u>\$ (954,629)</u> |

## 10. FINANCIAL ASSETS CARRIED AT COST

|  | <u>March 31, 2016</u> |                | <u>December 31, 2015</u> |                | <u>March 31, 2015</u> |                |
|--|-----------------------|----------------|--------------------------|----------------|-----------------------|----------------|
|  | Carrying Value        | % of Ownership | Carrying Value           | % of Ownership | Carrying Value        | % of Ownership |
| Unlisted common stocks   |                       |                |                          |                |                       |                |
| Everest Investment Holdings Ltd. (AH)                          | \$ 52,704             | 14             | \$ 52,704                | 14             | \$ 297,946            | 14             |
| Jardine Aviation Service                                       | 56,023                | 15             | 56,023                   | 15             | 56,023                | 15             |
| Taikoo (Xiamen) Landing Gear Service Co., Ltd.                 | 74,507                | 6              | 75,791                   | 6              | 75,447                | 6              |
| Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd. | 21,624                | 5              | 21,995                   | 5              | 21,896                | 5              |
| Chung Hwa Express Co.  | 11,000                | 11             | 11,000                   | 11             | 11,000                | 11             |
| Regal International Advertising                                | <u>5,925</u>          | 6              | <u>5,925</u>             | 6              | <u>5,925</u>          | 6              |
|  | 221,783               |                | 223,438                  |                | 468,237               |                |
| Unlisted preferred stocks                                      |                       |                |                          |                |                       |                |
| Everest Investment Holdings Ltd. (AH)                          | <u>473</u>            | -              | <u>473</u>               | -              | <u>473</u>            | -              |
|  | <u>\$ 222,256</u>     |                | <u>\$ 223,911</u>        |                | <u>\$ 468,710</u>     |                |
| Classified according to financial asset measurement categories |                       |                |                          |                |                       |                |
| Available-for-sale financial assets                            | <u>\$ 222,256</u>     |                | <u>\$ 223,911</u>        |                | <u>\$ 468,710</u>     |                |

The Group and other airline companies in Asia region had set up Abacus International Holdings (AH company) which owned Abacus distributions systems company. Due to strategy and adjustment, AH company disposed of shares of Abacus distribution system company. The board of AH company resolved to return the gain on disposal to shareholders by cash dividends and share redemption and which is approved. The Group received cash dividends of \$1,660,687 thousand and share redemption of \$245,242 thousand. AH company changes its name to Everest Investment Holdings Ltd. after the disposal of its subsidiary.

Above unlisted stock investments held by the Group were evaluated by cost after deducting impairment losses because the range of reasonable fair value estimates were significant and unable to be reasonably evaluated, the management considered its fair value unable to evaluate.

## 11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

|                                     | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|-------------------------------------|---------------------------|------------------------------|---------------------------|
| <u>Notes receivable</u>             | <u>\$ 374,216</u>         | <u>\$ 344,479</u>            | <u>\$ 470,504</u>         |
| <u>Accounts receivable</u>          |                           |                              |                           |
| Accounts receivable                 | 6,896,252                 | 7,376,125                    | 8,944,518                 |
| Less: Allowance for impairment loss | <u>(121,613)</u>          | <u>(109,927)</u>             | <u>(71,143)</u>           |
|                                     | <u>6,774,639</u>          | <u>7,266,198</u>             | <u>8,873,375</u>          |
|                                     | <u>\$ 7,148,855</u>       | <u>\$ 7,610,677</u>          | <u>\$ 9,343,879</u>       |

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

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

|   | <b>For the Three Months Ended<br/>March 31</b> |                  |
|---|--|------------------|
|   | <b>2016</b>                                    | <b>2015</b>      |
| Beginning balance                         | \$ 109,927                                     | \$ 66,131        |
| Impairment loss recognized on receivables | 10,785   | 5,540            |
| Amounts written off during current period | (226)  | (81)             |
| Amounts recovered during current period   | -  | (281)            |
| Exchange influence                        | <u>1,127</u>                                   | <u>(166)</u>     |
| Ending balance                            | <u>\$ 121,613</u>                              | <u>\$ 71,143</u> |

## 12. INVENTORIES

|  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|------------------------------|---------------------------|
| Aircraft spare parts                   | \$ 7,409,023              | \$ 7,648,352                 | \$ 6,612,745              |
| Items for in-flight sale               | 528,151                   | 507,603                      | 470,632                   |
| Work in process - maintenance services | 149,560                   | 143,489                      | 104,393                   |
| Others                                 | <u>2,975</u>              | <u>954</u>                   | <u>3,881</u>              |
|  | <u>\$ 8,089,709</u>       | <u>\$ 8,300,398</u>          | <u>\$ 7,191,651</u>       |

The cost of inventories recognized as operating costs due to write-downs of inventories was \$99,185 thousand and \$105,510 thousand.

### 13. NON-CURRENT ASSETS HELD FOR SALE

|                        | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|------------------------|-------------------|----------------------|-------------------|
| Aircraft held for sale | \$ 670,455        | \$ 670,455           | \$ -              |

To enhance the competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts on a planned schedule. On August 13, 2015, the board of directors resolved to sell two 747-400 aircrafts and one A340-300 aircraft. These aircrafts as non-current assets held for sale, and difference between the original book value and the expected sale price was recognized as impairment loss of 1,899,372 thousand. However the actual amount of loss should be identified by actual sale price. Above measurement of fair value is Level 3 measure which referred to the second-hand market and the conditions of aircrafts.

### 14. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

| Investor Company     | Investee Company                                      | Main Businesses and Products                                  | Proportion of Ownership                   |                      |                   |     |
|----------------------|---|---|---|----------------------|-------------------|-----|
|                      |   |   | March 31,<br>2016                         | December 31,<br>2015 | March 31,<br>2015 |     |
| 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  | 47                   | 47                |     |
|                      | Global Sky Express                                    | Forwarding and storage of air cargo                           | 25  | 25                   | 25                |     |
|                      | Freighter Princess Ltd.                               | Aircraft lease  | 100                                       | 100                  | 100               |     |
|                      | Freighter Prince Ltd.                                 | Aircraft lease  | 100                                       | 100                  | 100               |     |
|                      | Tigerair Taiwan Co., Ltd. (Note)                      | Air transportation  | 90  | 90                   | 90                |     |
|                      | Taiwan Aircraft Maintenance And Engineering Co., Ltd. | Aircraft maintenance  | 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                                       | 100                  | 100               |     |

Note: Proportion of ownership is considering by the Group view.

Considering the Group developing strategy, Mandarin Airlines had bought 323,367 shares of Taiwan Airport Services by \$8,084 thousand since current year.

The Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not each exceed 50%, but the Company had control over these investees, they were listed as subsidiaries. Except for Mandarin Airlines and Tigerair Taiwan Co., Ltd., the financial information of the subsidiaries above three months ended 2016 and 2015 has been reported into the correspondent period as investees without reviewed.

The Group's holding of the issued share capital of China Pacific Catering Services and China Pacific Laundry Services exceeded 50%, the Group did not have controlling power over the investees. Related information please refer to Note 15,b.

## 15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

|  | March 31,<br>2016   | December 31,<br>2015 | March 31,<br>2015   |
|--|---------------------|----------------------|---------------------|
| Investments in associates                  | \$ 2,051,203        | \$ 2,010,774         | \$ 1,941,677        |
| Investments in jointly controlled entities | <u>924,282</u>      | <u>867,003</u>       | <u>972,754</u>      |
|  | <u>\$ 2,975,485</u> | <u>\$ 2,877,777</u>  | <u>\$ 2,914,431</u> |

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

|   | March 31,<br>2016   | December 31,<br>2015 | March 31,<br>2015   |
|---|---------------------|----------------------|---------------------|
| <u>Unlisted companies</u>                                 |                     |                      |                     |
| China Aircraft Services                                   | \$ 497,550          | \$ 490,824           | \$ 457,680          |
| Kaohsiung Catering Services                               | 259,441             | 244,903              | 243,174             |
| Asian Compressor Technology Services                      | 287,340             | 263,091              | 282,196             |
| Science Park Logistics                                    | 251,764             | 185,226              | 189,679             |
| Airport Air Cargo Terminal (Xiamen)                       | 487,233             | 494,665              | 508,036             |
| Airport Air Cargo Service (Xiamen)                        | 226,263             | 226,066              | 226,160             |
| Eastern United International Logistics<br>(Holdings) Ltd. | <u>41,612</u>       | <u>41,908</u>        | <u>34,752</u>       |
|   | 2,051,203           | 1,946,683            | 1,941,677           |
| Prepaid long-term investment - Science Park<br>Logistics  | <u>-</u>            | <u>64,091</u>        | <u>-</u>            |
|   | <u>\$ 2,051,203</u> | <u>\$ 2,010,774</u>  | <u>\$ 1,941,677</u> |

On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common stock for cash and with the date of right issues granted on December 25, 2015. The board of Company has reached an agreement to purchase \$64,091 thousand which had been remitted to SPL. SPL completed the registration of this subscription on January 22, 2016.

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

| Name of Associate   | <u>Proportion of Ownership and Voting Rights</u> |                      |                   |
|---|--|----------------------|-------------------|
|   | March 31,<br>2016                                | December 31,<br>2015 | March 31,<br>2015 |
| China Aircraft Services                                   | 20%  | 20%                  | 20%               |
| Kaohsiung Catering Services                               | 36%  | 36%                  | 36%               |
| Asian Compressor Technology Services                      | 25%  | 25%                  | 25%               |
| Science Park Logistics                                    | 26%  | 28%                  | 28%               |
| Airport Air Cargo Terminal (Xiamen)                       | 28%  | 28%                  | 28%               |
| Airport Air Cargo Service (Xiamen)                        | 28%  | 28%                  | 28%               |
| Eastern United International Logistics<br>(Holdings) Ltd. | 35%  | 35%                  | 35%               |

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

|  | <b>For the Three Months Ended<br/>March 31</b> |                  |
|--|--|------------------|
|  | <b>2016</b>                                    | <b>2015</b>      |
| China Aircraft Services                                | \$ 16,982                                      | \$ 11,481        |
| Kaohsiung Catering Services                            | 14,538   | 11,069           |
| Asian Compressor Technology Services                   | 24,250   | 22,592           |
| Science Park Logistics                                 | 4,084  | 660              |
| Airport Air Cargo Terminal (Xiamen)                    | 963  | 1,633            |
| Airport Air Cargo Service (Xiamen)                     | 4,107  | 3,884            |
| Eastern United International Logistics (Holdings) Ltd. | <u>420</u>                                     | <u>2,253</u>     |
|  | <u>\$ 65,344</u>                               | <u>\$ 53,572</u> |

The financial statements used as basis of the amounts of and related information on the investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the three months ended March 31, 2016 and 2015 had not been independently reviewed.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

|                                 | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---------------------------------|---------------------------|------------------------------|---------------------------|
| China Pacific Catering Services | \$ 758,697                | \$ 705,134                   | \$ 797,933                |
| China Pacific Laundry Services  | <u>165,585</u>            | <u>161,869</u>               | <u>174,821</u>            |
|                                 | <u>\$ 924,282</u>         | <u>\$ 867,003</u>            | <u>\$ 972,754</u>         |

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

|                                 | <b>Proportion of Ownership and Voting Rights</b> |                              |                           |
|---------------------------------|--|------------------------------|---------------------------|
|                                 | <b>March 31,<br/>2016</b>                        | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
| 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 major motion veto on the board, and therefore the Group does not have its control power.



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

|                                 | <b>For the Three Months Ended<br/>March 31</b> |                  |
|---------------------------------|--|------------------|
|                                 | <b>2016</b>                                    | <b>2015</b>      |
| China Pacific Catering Services | \$ 54,550                                      | \$ 54,115        |
| China Pacific Laundry Services  | <u>3,716</u>                                   | <u>8,629</u>     |
|                                 | <u>\$ 58,266</u>                               | <u>\$ 62,744</u> |

Other comprehensive income of associates accounted for using the equity method in the three months ended March 31, 2016 and 2015 are \$(987) thousand and \$0 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 had not been independently reviewed.

Service, major business offices and country of company registered of above can be referred to Tables 5 and 6 (names, locations, and related information of investees on which the Company exercises significant influence and investment in Mainland China).

## 16. PROPERTY, PLANT AND EQUIPMENT

|  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|------------------------------|---------------------------|
| <u>Cost</u>                                    |                           |                              |                           |
| Freehold land                                  | \$ 963,341                | \$ 976,427                   | \$ 947,357                |
| Buildings                                      | 13,122,524                | 13,140,158                   | 15,439,881                |
| Flight equipment                               | 230,445,927               | 229,849,035                  | 236,227,222               |
| Equipment under finance lease                  | 28,432,531                | 28,087,404                   | 30,606,753                |
| Machinery equipment                            | 10,066,439                | 9,930,186                    | 9,602,538                 |
| Office equipment                               | 1,066,987                 | 1,044,598                    | 1,009,712                 |
| Leased assets                                  | 126,366                   | 129,372                      | 130,741                   |
| Leasehold improvements                         | 3,900,340                 | 3,928,846                    | 1,439,395                 |
| Construction in progress                       | <u>178,553</u>            | <u>134,888</u>               | <u>111,677</u>            |
|  | <u>\$ 288,303,008</u>     | <u>\$ 287,220,914</u>        | <u>\$ 295,515,276</u>     |
| <u>Accumulated depreciation and impairment</u> |                           |                              |                           |
| Buildings                                      | \$ 5,471,714              | \$ 5,355,804                 | \$ 4,945,285              |
| Flight equipment                               | 131,333,579               | 128,953,990                  | 127,525,711               |
| Equipment under finance lease                  | 14,357,279                | 14,201,904                   | 15,106,788                |
| Machinery equipment                            | 6,698,945                 | 6,598,390                    | 6,306,455                 |
| Office equipment                               | 851,562                   | 839,931                      | 770,502                   |
| Leased assets                                  | 108,110                   | 113,276                      | 115,201                   |
| Leasehold improvements                         | <u>1,546,339</u>          | <u>1,528,753</u>             | <u>1,524,533</u>          |
|  | <u>\$ 160,367,528</u>     | <u>\$ 157,592,048</u>        | <u>\$ 156,294,475</u>     |
| Net value                                      | <u>\$ 127,935,480</u>     | <u>\$ 129,628,866</u>        | <u>\$ 139,220,801</u>     |

|  | Freehold Land     | Buildings             | Flight<br>Equipment     | Equipment<br>under Finance<br>Lease | Others                | Total                   |
|--|-------------------|-----------------------|-------------------------|-------------------------------------|-----------------------|-------------------------|
| <u>Cost</u>  |                   |                       |                         |                                     |                       |                         |
| Balance at January 1,<br>2015                      | \$ 953,614        | \$ 13,085,921         | \$ 232,035,450          | \$ 33,985,116                       | \$ 14,697,246         | \$ 294,757,347          |
| Additions  | -                 | 4,527                 | 567,563                 | 92,567                              | 94,810                | 759,467                 |
| Disposals  | -                 | (988)                 | (85,318)                | -                                   | (149,225)             | (235,531)               |
| Reclassification                                   | -                 | 2,361,124             | 3,709,527               | (3,470,930)                         | (2,347,753)           | 251,968                 |
| Net exchange difference                            | (6,257)           | (10,703)              | -                       | -                                   | (1,015)               | (17,975)                |
| Balance at March 31,<br>2015                       | <u>\$ 947,357</u> | <u>\$ 15,439,881</u>  | <u>\$ 236,227,222</u>   | <u>\$ 30,606,753</u>                | <u>\$ 12,294,063</u>  | <u>\$ 295,515,276</u>   |
| <u>Accumulated depreciation<br/>and impairment</u> |                   |                       |                         |                                     |                       |                         |
| Balance at January 1,<br>2015                      | \$ -              | \$ (4,794,850)        | \$ (121,645,204)        | \$ (16,998,403)                     | \$ (8,663,824)        | \$ (152,102,281)        |
| Depreciation expense                               | -                 | (156,244)             | (3,531,435)             | (543,914)                           | (202,597)             | (4,434,190)             |
| Disposals  | -                 | 988                   | 79,147                  | -                                   | 148,380               | 228,515                 |
| Reclassification                                   | -                 | (13)                  | (2,428,219)             | 2,435,529                           | 1,321                 | 8,618                   |
| Net exchange difference                            | -                 | 4,834                 | -                       | -                                   | 29                    | 4,863                   |
| Balance at March 31,<br>2015                       | <u>\$ -</u>       | <u>\$ (4,945,285)</u> | <u>\$ (127,525,711)</u> | <u>\$ (15,106,788)</u>              | <u>\$ (8,716,691)</u> | <u>\$ (156,294,475)</u> |
| <u>Cost</u>  |                   |                       |                         |                                     |                       |                         |
| Balance at January 1,<br>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 difference                            | (13,086)          | (22,545)              | -                       | -                                   | (2,265)               | (37,896)                |
| Balance at March 31,<br>2016                       | <u>\$ 963,341</u> | <u>\$ 13,122,524</u>  | <u>\$ 230,445,927</u>   | <u>\$ 28,432,531</u>                | <u>\$ 15,338,685</u>  | <u>\$ 288,303,008</u>   |
| <u>Accumulated depreciation<br/>and impairment</u> |                   |                       |                         |                                     |                       |                         |
| Balance at January 1,<br>2016                      | \$ -              | \$ (5,355,804)        | \$ (128,953,990)        | \$ (14,201,904)                     | \$ (9,080,350)        | \$ (157,592,048)        |
| Depreciation expense                               | -                 | (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 difference                            | -                 | 9,767                 | -                       | -                                   | 1,715                 | 11,482                  |
| Balance at March 31,<br>2016                       | <u>\$ -</u>       | <u>\$ (5,471,714)</u> | <u>\$ (131,333,579)</u> | <u>\$ (14,357,279)</u>              | <u>\$ (9,204,956)</u> | <u>\$ (160,367,528)</u> |

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

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

(Continued)

|   |             |
|---|-------------|
| Flight equipments and equipment under finance lease |             |
| Airframe  | 15-25 years |
| Aircraft cabin                                      | 7-13 years  |
| Engine  | 10-20 years |
| Heavy maintenance on aircraft                       | 6-8 years   |
| Engine overhauls                                    | 3-10 years  |
| Landing gear overhauls                              | 7-10 years  |
| Repairable spare parts                              | 7-15 years  |
| Leased aircraft improvements                        | 5-12 years  |
|   | (Concluded) |

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

Owing to the particularity of risk in aviation industry, all of our assets such as aircraft, real estate, movable property are adequately insured to diversify the potential risk related to operation.

## 17. INVESTMENT PROPERTIES

|                       | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|-----------------------|---------------------------|------------------------------|---------------------------|
| Carrying amount       |                           |                              |                           |
| Investment properties | <u>\$ 2,076,112</u>       | <u>\$ 2,076,182</u>          | <u>\$ 2,076,391</u>       |

The investment properties held by the Group were a 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 is \$2,348,759 thousand on March 31, 2016, December 31, 2015 and March 31, 2015.

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

|                            | <b>Cost</b>         | <b>Accumulated<br/>Impairment<br/>and<br/>Depreciation</b> | <b>Net Value</b>    |
|----------------------------|---------------------|--|---------------------|
| Balance on January 1, 2015 | \$ 2,082,390        | \$ (5,929)   | \$ 2,076,461        |
| Additions                  | <u>-</u>            | <u>(70)</u>  | <u>(70)</u>         |
| Balance on March 31, 2015  | <u>\$ 2,082,390</u> | <u>\$ (5,999)</u>  | <u>\$ 2,076,391</u> |
| Balance on January 1, 2016 | \$ 2,082,390        | \$ (6,208)   | \$ 2,076,182        |
| Additions                  | <u>-</u>            | <u>(70)</u>  | <u>(70)</u>         |
| Balance on March 31, 2016  | <u>\$ 2,082,390</u> | <u>\$ (6,278)</u>  | <u>\$ 2,076,112</u> |

## 18. OTHER INTANGIBLE ASSETS

|                            | <b>Computer<br/>Software Cost</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Value</b>    |
|----------------------------|-----------------------------------|-------------------------------------|---------------------|
| Balance at January 1, 2015 | \$ 1,214,465                      | \$ (543,468)                        | \$ 670,997          |
| Additions                  | 177,410                           | -                                   | 177,410             |
| Amortization expense       | -                                 | (15,468)                            | (15,468)            |
| Exchange influence         | <u>-</u>                          | <u>(4)</u>                          | <u>(4)</u>          |
| Balance at March 31, 2015  | <u>\$ 1,391,875</u>               | <u>\$ (558,940)</u>                 | <u>\$ 832,935</u>   |
| Balance at January 1, 2016 | \$ 1,623,186                      | \$ (613,508)                        | \$ 1,009,678        |
| Additions                  | 92,935                            | -                                   | 92,935              |
| Amortization expense       | -                                 | (23,312)                            | (23,312)            |
| Exchange influence         | <u>-</u>                          | <u>48</u>                           | <u>48</u>           |
| Balance at March 31, 2016  | <u>\$ 1,716,121</u>               | <u>\$ (636,772)</u>                 | <u>\$ 1,079,349</u> |

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

## 19. OTHER ASSETS

|                          | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--------------------------|---------------------------|------------------------------|---------------------------|
| <u>Current</u>           |                           |                              |                           |
| Other financial assets   | \$ 2,030,162              | \$ 1,653,927                 | \$ 872,763                |
| Temporary payments       | 963,196                   | 632,661                      | 366,203                   |
| Prepayments              | 1,154,207                 | 1,146,659                    | 836,506                   |
| Restricted assets        | 36,367                    | 500                          | 43,479                    |
| Others                   | <u>188,214</u>            | <u>495,000</u>               | <u>136,736</u>            |
|                          | <u>\$ 4,372,146</u>       | <u>\$ 3,928,747</u>          | <u>\$ 2,255,687</u>       |
| <u>Noncurrent</u>        |                           |                              |                           |
| Prepayments for aircraft | \$ 28,810,244             | \$ 28,714,476                | \$ 31,203,655             |
| Prepayments - long-term  | 2,411,274                 | 2,522,891                    | 2,069,022                 |
| Refundable deposits      | 1,497,098                 | 1,489,112                    | 1,242,547                 |
| Restricted assets        | 96,290                    | 504,924                      | 483,289                   |
| Other financial assets   | 14,229                    | 14,144                       | 13,941                    |
| Others                   | <u>9,644</u>              | <u>1,312</u>                 | <u>13,692</u>             |
|                          | <u>\$ 32,838,779</u>      | <u>\$ 33,246,859</u>         | <u>\$ 35,026,146</u>      |

The prepayments for aircraft were the prepaid deposit and capitalized interest from the purchase of A350-900 and 777-300ER. The related instruction of the contract, please refer to Note 35.

## 20. BORROWINGS

### a. Short-term loans

|                        | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|------------------------|---------------------------|------------------------------|---------------------------|
| Bank loans - unsecured | <u>\$ 118,215</u>         | <u>\$ 173,289</u>            | <u>\$ 2,960,938</u>       |
| Interest rates         | 1.53%-1.65%               | 1.25%-1.8636%                | 1.18%-1.21%               |

### b. Short-term and bills payable

|   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Commercial paper                            | \$ -                      | \$ 10,000                    | \$ 1,200,000              |
| Less: Unamortized discount on bills payable | <u>-</u>                  | <u>5</u>                     | <u>1,027</u>              |
|   | <u>\$ -</u>               | <u>\$ 9,995</u>              | <u>\$ 1,198,973</u>       |
| Annual discount rate                        | -                         | 1.3%                         | 1.108%-1.188%             |

### c. Long-term debts

|                            | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|----------------------------|---------------------------|------------------------------|---------------------------|
| Unsecured bank loans       | \$ 31,079,090             | \$ 31,231,342                | \$ 34,623,941             |
| Secured bank loans         | 22,965,525                | 25,342,804                   | 31,402,023                |
| Commercial paper           |                           |                              |                           |
| Proceeds from issue        | 32,900,000                | 31,275,000                   | 29,230,000                |
| Less: Unamortized discount | <u>45,246</u>             | <u>65,529</u>                | <u>89,200</u>             |
|                            | 86,899,369                | 87,783,617                   | 95,166,764                |
| Less: Current portion      | <u>27,911,852</u>         | <u>30,092,112</u>            | <u>18,616,394</u>         |
|                            | <u>\$ 58,987,517</u>      | <u>\$ 57,691,505</u>         | <u>\$ 76,550,370</u>      |

Secured bank loans were secured by freehold land, building, machinery equipment and flight equipment, please 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:

|                          | <b>Currency</b>               |                     |                     |
|--------------------------|-------------------------------|---------------------|---------------------|
|                          | <b>New Taiwan<br/>Dollars</b> | <b>U.S. Dollars</b> | <b>Japanese Yen</b> |
| <u>Original currency</u> |                               |                     |                     |
| March 31, 2016           | \$ 50,953,369                 | \$ 96,138           | \$ -                |
| December 31, 2015        | 52,533,784                    | 122,827             | -                   |
| March 31, 2015           | 59,075,969                    | 222,085             | 37,782              |

(Continued)

|   | <b>Currency</b>           |                     |                                  |
|---|---------------------------|---------------------|----------------------------------|
|   | <b>New Taiwan Dollars</b> | <b>U.S. Dollars</b> | <b>Japanese Yen</b>              |
| <u>Translated in New Taiwan dollars</u> |                           |                     |                                  |
| March 31, 2016                          | \$ 50,953,369             | \$ 3,091,246        | \$ -                             |
| December 31, 2015                       | 52,533,784                | 4,040,362           | -                                |
| March 31, 2015                          | 59,075,969                | 6,940,154           | 9,841                            |
| <u>Interest rates</u>                   |                           |                     |                                  |
| March 31, 2016                          | 1.0833%-3.15%             | 0.2376-4.39%        | -                                |
| December 31, 2015                       | 1.1432%-2.613%            | 0.4067%-4.39%       | -                                |
| March 31, 2015                          | 1.277%-2.2242%            | 0.2511%-4.39%       | 1.975%                           |
| <u>Periods</u>                          |                           |                     |                                  |
| March 31, 2016                          | 2004.12.16-2029.2.4       | 2004.6.28-2017.9.21 | -                                |
| December 31, 2015                       | 2004.12.16-2029.2.4       | 2004.6.28-2017.9.21 | -                                |
| March 31, 2015                          | 2002.4.11-2029.2.4        | 2003.7.22-2020.2.26 | 2013.9.1-2016.8.1<br>(Concluded) |

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until February 2021, were used by the Group to guarantee commercial papers issued. As of March 31, 2016, December 31, 2015 and March 31, 2015, the commercial papers were issued at discount rates 1.2213%-1.5213%, 1.2407%-1.5833% and 1.3895%-2.0868%, respectively.

## 21. BONDS PAYABLE

|   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Secured corporate bond first-time issued in 2011          | \$ 2,400,000              | \$ 2,400,000                 | \$ 4,200,000              |
| Unsecured corporate bond first-time issued in 2013        | 10,900,000                | 10,900,000                   | 10,900,000                |
| Convertible bond issued the fifth time                    | <u>2,555,696</u>          | <u>2,544,106</u>             | <u>3,663,744</u>          |
|   | 15,855,696                | 15,844,106                   | 18,763,744                |
| Less: Current portion and put option of convertible bonds | <u>7,655,696</u>          | <u>4,944,106</u>             | <u>1,800,000</u>          |
|   | <u>\$ 8,200,000</u>       | <u>\$ 10,900,000</u>         | <u>\$ 16,963,744</u>      |

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 convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.                | 2013.12.26-2018.12.26 | Except for converting to capital stock or buying back, principal repayable in December of 2018 | -        |

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request the Company to repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights, the Company reclassified the bonds payable to “current portion of bonds payable”.
- 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 ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company’s common shares. The initial conversion price was set at NT\$12.24, subject to adjustment if there is capital injection by cash, stock dividend distribution, and the proportion of cash dividend per share in market price exceed 1.5%. As of March 31, 2016, there was no adjustment to the conversion price, but corporate bonds with a face value of \$3,315,700 thousand had been converted to 270,890 thousand of common shares.

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

|   |                     |
|---|---------------------|
| Proceeds from issuance                      | \$ 6,000,000        |
| Equity component                            | <u>(518,621)</u>    |
| Liability component at the date of issuance | <u>\$ 5,481,379</u> |

## 22. LEASING

### a. Sale-leaseback finance lease

|  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|------------------------------|---------------------------|
| <u>Minimum lease payments - flight equipment</u> |                           |                              |                           |
| Within one year                                  | \$ 1,428,467              | \$ 1,428,467                 | \$ 2,602,933              |
| Beyond one year and within five years            | <u>4,722,017</u>          | <u>5,079,133</u>             | <u>6,544,467</u>          |
| Present value of minimum lease payments          | <u>\$ 6,150,484</u>       | <u>\$ 6,507,600</u>          | <u>\$ 9,147,400</u>       |
| Interest rates                                   | 1.1317%-1.63%             | 1.1828%-<br>1.5667%          | 1.31%-1.67%               |

The Group had leased engines, A330-300, A340-300 and B747-400 in total of 5 aircrafts by under sale-leaseback finance leases as of March 31, 2016. The lease terms started from June 2006 to April 2019. During the lease term, the Group retained all risks and rewards attached to aircraft and engines, and enjoyed the same substantive right prior to the transaction. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under sale-leaseback aircraft contract are not inclusive of interest expense.

### b. Finance lease

Taiwan Air Cargo Terminal Co. (TACT) entered into a terminal construction contract. Please refer to Note 35 for the terms of contract.

|   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| <u>Minimum lease payments - Cargo Terminal</u>                      |                           |                              |                           |
| Within one year   | \$ 29,718                 | \$ 37,697                    | \$ 31,657                 |
| Beyond one year and within five years                               | <u>118,959</u>            | <u>117,433</u>               | <u>152,104</u>            |
|   | 148,677                   | 155,130                      | 183,761                   |
| Less: Financial cost  | <u>(10,376)</u>           | <u>(7,626)</u>               | <u>(7,694)</u>            |
| Present value of minimum lease payments                             | <u>\$ 138,301</u>         | <u>\$ 147,504</u>            | <u>\$ 176,067</u>         |
| <u>Present value of minimum lease payments -<br/>Cargo Terminal</u> |                           |                              |                           |
| Within one year   | \$ 29,490                 | \$ 29,490                    | \$ 30,500                 |
| Beyond one year and within five years                               | <u>108,811</u>            | <u>118,014</u>               | <u>145,567</u>            |
|   | <u>\$ 138,301</u>         | <u>\$ 147,504</u>            | <u>\$ 176,067</u>         |
| Discount rate   | 4.96%                     | 4.96%                        | 5.04%                     |
| Total amount of present value of minimum<br>lease payments          |                           |                              |                           |
| Current   | \$ 1,457,957              | \$ 1,457,957                 | \$ 2,633,433              |
| Noncurrent  | <u>4,830,828</u>          | <u>5,197,147</u>             | <u>6,690,034</u>          |
|   | <u>\$ 6,288,785</u>       | <u>\$ 6,655,104</u>          | <u>\$ 9,323,467</u>       |



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

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

The rental rates stated in the aircraft lease agreements some are fixed and some are floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of March 31, 2016, the Group has rented eleven A330-300 planes, nine B737-800 planes, nine B777-300ER planes, six ERJ190 planes and seven A320-200 planes under operating contracts which the lease terms range from 8 to 12 years.

As of March 31, 2016, December 31, 2015 and March 31, 2015, the refundable deposits paid by the Group under operating lease contracts were \$956,214 thousand, \$952,520 thousand and \$843,358 thousand, respectively. Part of the guarantees is secured by credit guarantees, and outstanding credit guarantee as of March 31, 2016, December 31, 2015 and March 31, 2015 were \$1,274,903 thousand, \$1,304,259 thousand and \$805,531 thousand.

The future minimum lease payments for the noncancelable operating lease commitments were as follows:

|                        | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|------------------------|---------------------------|------------------------------|---------------------------|
| Up to 1 year           | \$ 9,253,207              | \$ 8,896,478                 | \$ 6,983,644              |
| Over 1 year to 5 years | 38,207,457                | 33,344,415                   | 25,246,093                |
| Over 5 years           | <u>43,696,760</u>         | <u>32,325,852</u>            | <u>20,874,252</u>         |
|                        | <u>\$ 91,157,424</u>      | <u>\$ 74,566,745</u>         | <u>\$ 53,103,989</u>      |

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

|                       | <b>For the Three Months Ended<br/>March 31</b> |                     |
|-----------------------|--|---------------------|
|                       | <b>2016</b>                                    | <b>2015</b>         |
| Minimum lease payment | <u>\$ 2,469,865</u>                            | <u>\$ 1,521,311</u> |

## 23. OTHER PAYABLES

|                              | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|------------------------------|---------------------------|------------------------------|---------------------------|
| Fuel cost                    | \$ 1,780,709              | \$ 2,038,041                 | \$ 2,966,987              |
| Ground service expense       | 1,427,763                 | 1,890,418                    | 1,475,043                 |
| Repair expense               | 908,379                   | 916,442                      | 806,057                   |
| Interest expense             | 117,417                   | 262,601                      | 155,957                   |
| Short-term employee benefits | 2,338,115                 | 3,310,173                    | 2,014,653                 |
| Terminal surcharges          | 823,576                   | 781,621                      | 639,968                   |
| Commission expense           | 442,039                   | 450,492                      | 633,094                   |
| Others                       | <u>2,780,412</u>          | <u>2,646,760</u>             | <u>1,895,290</u>          |
|                              | <u>\$ 10,618,410</u>      | <u>\$ 12,296,548</u>         | <u>\$ 10,587,049</u>      |

## 24. DEFERRED REVENUE

|                        | March 31,<br>2016    | December 31,<br>2015 | March 31,<br>2015    |
|------------------------|----------------------|----------------------|----------------------|
| Frequent flyer program | \$ 2,460,154         | \$ 2,610,667         | \$ 2,578,187         |
| Advance ticket sales   | <u>10,870,160</u>    | <u>12,365,348</u>    | <u>9,691,656</u>     |
|                        | <u>\$ 13,330,314</u> | <u>\$ 14,976,015</u> | <u>\$ 12,269,843</u> |
| Current                | \$ 11,540,960        | \$ 13,112,086        | \$ 10,419,396        |
| Noncurrent             | <u>1,789,354</u>     | <u>1,863,929</u>     | <u>1,850,447</u>     |
|                        | <u>\$ 13,330,314</u> | <u>\$ 14,976,015</u> | <u>\$ 12,269,843</u> |

## 25. PROVISIONS

|                                  | March 31,<br>2016   | December 31,<br>2015 | March 31,<br>2015                  |
|----------------------------------|---------------------|----------------------|------------------------------------|
| Operating lease-aircraft         | <u>\$ 6,207,565</u> | <u>\$ 6,187,481</u>  | <u>\$ 4,714,335</u>                |
| Current                          | \$ 30,798           | \$ 20,186            | \$ 10,794                          |
| Non-current                      | <u>6,176,767</u>    | <u>6,167,295</u>     | <u>4,703,541</u>                   |
|                                  | <u>\$ 6,207,565</u> | <u>\$ 6,187,481</u>  | <u>\$ 4,714,335</u>                |
|                                  |                     |                      | <b>Aircraft Lease<br/>Contract</b> |
| Balance at January 1, 2015       |                     |                      | \$ 4,303,780                       |
| Additional provisions recognized |                     |                      | 433,676                            |
| Usage                            |                     |                      | (11,918)                           |
| Effect of exchange rate changes  |                     |                      | <u>(11,203)</u>                    |
| Balance at March 31, 2015        |                     |                      | <u>\$ 4,714,335</u>                |
| Balance at January 1, 2016       |                     |                      | \$ 6,187,481                       |
| Additional provisions recognized |                     |                      | 600,052                            |
| Usage                            |                     |                      | (567,391)                          |
| Effect of exchange rate changes  |                     |                      | <u>(12,577)</u>                    |
| Balance at March 31, 2016        |                     |                      | <u>\$ 6,207,565</u>                |

The Company and Mandarin Airlines leased flight equipments under operating lease agreements. Under the contracts, when the lease expire to return the lessor, the flight equipment have to be repaired according to the expected using years, flight hours, flight cycle and the engine revolution times. The Company and Mandarin had existing obligation to recognize provision when signing the lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipments under operating lease agreements, in accordance to the contract, Tigerair had to pay the maintenance reverse accounted for using the flying hours.

## 26. RETIREMENT BENEFIT PLANS

Employee benefit expense in respect of group's defined benefit retirement plan were calculated using the actuarially determined pension cost discount rate as of December 31, 2015 and 2014.

|                    | <b>For the Three Months Ended<br/>March 31</b> |                   |
|--------------------|--|-------------------|
|                    | <b>2016</b>                                    | <b>2015</b>       |
| Operating costs    | \$ 149,632                                     | \$ 97,693         |
| Operating expenses | <u>63,870</u>                                  | <u>37,951</u>     |
|                    | <u>\$ 213,502</u>                              | <u>\$ 135,644</u> |

## 27. EQUITY

### a. Share capital

#### Common shares

|   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Numbers of shares authorized (in thousands) | <u>6,000,000</u>          | <u>6,000,000</u>             | <u>6,000,000</u>          |
| Amount of shares authorized                 | <u>\$ 60,000,000</u>      | <u>\$ 60,000,000</u>         | <u>\$ 60,000,000</u>      |
| Amount of shares issued                     | <u>\$ 54,708,901</u>      | <u>\$ 54,708,901</u>         | <u>\$ 53,700,079</u>      |

### b. Capital surplus

|   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Issuance of stock in excess of par value and conversion premium | \$ 552,470                | \$ 552,470                   | \$ 1,810,380              |
| Gain on sale of treasury shares held by subsidiaries            | 1,156                     | 1,156                        | 1,156                     |
| Employee stock options expired                                  | 11,747                    | 11,747                       | 11,747                    |
| Long-term investment  | 1,019                     | 1,019                        | 955                       |
| Bonds payable equity component                                  | <u>232,023</u>            | <u>232,023</u>               | <u>338,755</u>            |
|   | <u>\$ 798,415</u>         | <u>\$ 798,415</u>            | <u>\$ 2,162,993</u>       |

The capital surplus from shares issued in excess of par (including additional paid-in capital from issuance of common shares 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, can not be used.

c. Appropriation of earnings and dividend policy

The Company's Articles of Incorporation provide that the following should be appropriated from annual net income (less any deficit): (a) 10% as legal reserve, and (b) special reserve equivalent to a debit balance of any stockholders' equity account. From the remainder, the Company should also appropriate at least 3% as bonus to employees. Of the final remainder, at least 50% should be distributed to stockholders as cash or stock dividends (cash dividend should not be less than 30% of the total dividends). In determining the amount of cash dividends to be distributed, the board of directors should take into account future cash requirements of the Company, primarily cash requirements for future aircraft acquisitions. Distribution of earnings generated in prior years should also meet the foregoing guidelines.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends are limited to shareholders and do not include employees. The consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors and are subject to the resolution of the shareholders in their meeting to be held in 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 28.

1) Appropriation of earnings in 2014

On June 26, 2015, the stockholders resolved to offset the accumulated deficit in 2014. The deficit, included a net loss of \$751,232 thousand, other retained earning of \$47,471 thousand, the unappropriated deficits of \$3,161,115 thousand, the remaining amount of accumulated deficit was \$3,864,876 thousand. The Company offset the accumulated deficit against legal reserve of \$1,511,953 thousand. No bonus to employees was appropriated for 2014 because of a net loss in that year.

2) Appropriation of earnings in 2015

The appropriations of earnings for 2015 had been proposed by the Company's board of directors on March 25, 2016. The appropriations and dividends per share were as follows:

|                 | <b>Appropriation<br/>of Earnings</b> | <b>Dividends Per<br/>Share (NT\$)</b> |
|-----------------|--------------------------------------|---------------------------------------|
| Legal reserve   | \$ 287,224                           |                                       |
| Special reserve | 76,486                               |                                       |
| Cash dividends  | 2,508,526                            | \$0.458522382                         |

The appropriations of earnings for 2015 are subject to the resolution of the shareholders' meeting to be held on June 24, 2016.

Except for non-ROC resident stockholders, all stockholders receiving the unappropriated earnings generated on and after January 1, 1998 are allowed a tax credit equal to their proportionate share of the income tax paid by the Group.

d. Others equity items

The movement of other equity items is as follows:

|   | <b>Exchange<br/>Differences on<br/>Translating<br/>Foreign<br/>Operations</b> | <b>Unrealized<br/>Gain (Loss) on<br/>Available-for-<br/>sale Financial<br/>Assets</b> | <b>Cash Flow<br/>Hedge</b> | <b>Total</b>          |
|---|---|---|----------------------------|-----------------------|
| Balance on January 1, 2015  | \$ 99,852   | \$ 4,015  | \$ (2,009,565)             | \$ (1,905,698)        |
| Exchange differences arising on translating the foreign operations  | (21,909)  | -   | -                          | (21,909)              |
| Unrealized gain (loss) on available-for-sale financial assets   | -   | (1,287)   | -                          | (1,287)               |
| Cumulative gain (loss) arising on changes in fair value of hedging instruments                                | -   | -   | (274,446)                  | (274,446)             |
| Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss | -   | -   | 954,629                    | 954,629               |
| Share of exchange difference of associates accounted for using the equity method                              | -   | -   | -                          | -                     |
| Effect of income tax  | <u>3,726</u>  | <u>-</u>  | <u>(115,631)</u>           | <u>(111,905)</u>      |
| Balance on March 31, 2015   | <u>\$ 81,669</u>  | <u>\$ 2,728</u>   | <u>\$ (1,445,013)</u>      | <u>\$ (1,360,616)</u> |
| Balance on January 1, 2016  | \$ 157,959  | \$ 1,755  | \$ (225,997)               | \$ (66,283)           |
| Exchange differences arising on translating the foreign operations  | (49,976)  | -   | -                          | (49,976)              |
| Unrealized gain (loss) on available-for-sale financial assets   | -   | (938)   | -                          | (938)                 |
| Cumulative gain (loss) arising on changes in fair value of hedging instruments                                | -   | -   | (273,112)                  | (273,112)             |
| Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss | -   | -   | 249,168                    | 249,168               |
| Share of exchange difference of associates accounted for using the equity method                              | -   | (987)   | -                          | (987)                 |
| Effect of income tax  | <u>8,052</u>  | <u>-</u>  | <u>3,522</u>               | <u>11,574</u>         |
| Balance on March 31, 2016   | <u>\$ 116,035</u>   | <u>\$ (170)</u>   | <u>\$ (246,419)</u>        | <u>\$ (130,554)</u>   |

e. Non-controlling interest

|  | <b>For the Three Months Ended<br/>March 31</b> |                     |
|--|--|---------------------|
|  | <b>2016</b>                                    | <b>2015</b>         |
| Beginning balance  | \$ 2,286,647                                   | \$ 2,321,737        |
| Net income attributable to non-controlling interest                        | 43,514   | 31,825              |
| Foreign exchange differences arising on translating the foreign operations | (397)  | (1,024)             |
| Unrealized gain (loss) on financial assets                                 | (1,029)  | (1,431)             |
| Acquisition of non-controlling interests in subsidiaries                   | (4,548)  | -                   |
| Effect of income tax   | (383)  | (313)               |
| Cash flow hedge  | (1,122)  | -                   |
| Dividends paid by subsidiaries   | (462)  | -                   |
| Ending balance   | <u>\$ 2,322,220</u>                            | <u>\$ 2,350,794</u> |

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of March 31, 2016 and 2015 were as follows:

(Shares in Thousands)

| <b>Purpose of Treasury Stock</b>  | <b>Number of<br/>Shares,<br/>Beginning<br/>of Year</b> | <b>Reduction<br/>During<br/>the Year<br/>(Note)</b> | <b>Number of<br/>Shares,<br/>End<br/>of Year</b> |
|---|--|---|--|
| <u>Three months ended March 31, 2016</u>  |  |   |  |
| Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock | <u>2,889</u>   | -   | <u>2,889</u>                                     |
| <u>Three months ended March 31, 2015</u>  |  |   |  |
| Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock | <u>2,889</u>   | -   | <u>2,889</u>                                     |

| <b>Subsidiary</b>        | <b>Shares<br/>(In Thousands)</b> | <b>Carrying<br/>Amount</b> | <b>Market Value</b> |
|--------------------------|----------------------------------|----------------------------|---------------------|
| <u>March 31, 2016</u>    |                                  |                            |                     |
| Mandarin Airlines        | 2,075                            | \$ 23,858                  | \$ 23,858           |
| Hwa Hsia                 | 814                              | <u>9,363</u>               | <u>9,363</u>        |
|                          |                                  | <u>\$ 33,221</u>           | <u>\$ 33,221</u>    |
| <u>December 31, 2015</u> |                                  |                            |                     |
| Mandarin Airlines        | 2,075                            | \$ 24,895                  | \$ 24,895           |
| Hwa Hsia                 | 814                              | <u>9,770</u>               | <u>9,770</u>        |
|                          |                                  | <u>\$ 34,665</u>           | <u>\$ 34,665</u>    |

(Continued)

| Subsidiary            | Shares<br>(In Thousands) | Carrying<br>Amount | Market Value                    |
|-----------------------|--------------------------|--------------------|---------------------------------|
| <u>March 31, 2015</u> |                          |                    |                                 |
| Mandarin Airlines     | 2,075                    | \$ 33,298          | \$ 33,298                       |
| Hwa Hsia              | 814                      | <u>13,067</u>      | <u>13,067</u>                   |
|                       |                          | <u>\$ 46,365</u>   | <u>\$ 46,365</u><br>(Concluded) |

Above subsidiaries acquisition of the Company's stock in previous years was due to the investment planning.

The shares 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 shares and voting right.

## 28. NET INCOME

### a. Revenue

|           | <b>For the Three Months Ended<br/>March 31</b> |                      |
|-----------|--|----------------------|
|           | <b>2016</b>                                    | <b>2015</b>          |
| Passenger | \$ 24,727,731                                  | \$ 23,627,380        |
| Cargo     | 7,806,929                                      | 11,144,876           |
| Others    | <u>2,464,363</u>                               | <u>2,391,649</u>     |
|           | <u>\$ 34,999,023</u>                           | <u>\$ 37,163,905</u> |

### b. Other income

|                 | <b>For the Three Months Ended<br/>March 31</b> |                   |
|-----------------|--|-------------------|
|                 | <b>2016</b>                                    | <b>2015</b>       |
| Interest income | \$ 91,229                                      | \$ 107,241        |
| Subsidy income  | 7,450  | 60,724            |
| Others          | <u>57,365</u>                                  | <u>95,359</u>     |
|                 | <u>\$ 156,044</u>                              | <u>\$ 263,324</u> |

c. Other gains and losses

|   | <b>For the Three Months Ended<br/>March 31</b> |                     |
|---|--|---------------------|
|   | <b>2016</b>                                    | <b>2015</b>         |
| Gain on disposal property, plant and equipment                      | \$ 3,395                                       | \$ 1,780            |
| Net loss arising on financial assets classified as held for trading | (25,374)                                       | (6,885)             |
| Gain or loss on foreign exchange, net                               | (234,787)                                      | 1,522               |
| Others  | <u>(182,474)</u>                               | <u>(135,065)</u>    |
|   | <u>\$ (439,240)</u>                            | <u>\$ (138,648)</u> |

d. Financial cost

|  | <b>For the Three Months Ended<br/>March 31</b> |                   |
|--|--|-------------------|
|  | <b>2016</b>                                    | <b>2015</b>       |
| Interest expense   |  |                   |
| Bonds payable  | \$ 66,061                                      | \$ 85,698         |
| Bank loan  | 258,932  | 359,678           |
| Interest on obligations under financial lease  | 18,994   | 37,279            |
| Loss arising on derivatives as designated hedging instruments<br>in cash flow hedge accounting reclassified from equity to<br>profit or loss | <u>1,279</u>                                   | <u>2,199</u>      |
|  | <u>\$ 345,266</u>                              | <u>\$ 484,854</u> |

Information of interest capitalization was as follows:

|                         | <b>For the Three Months Ended<br/>March 31</b> |                     |
|-------------------------|--|---------------------|
|                         | <b>2016</b>                                    | <b>2015</b>         |
| Capitalization interest | <u>\$ 108,743</u>                              | <u>\$ 74,157</u>    |
| Capitalization rate     | 1.6670%-<br>1.7347%                            | 1.7529%-<br>1.8065% |

e. Depreciation and amortization expense

|                                       | <b>For the Three Months Ended<br/>March 31</b> |                     |
|---------------------------------------|--|---------------------|
|                                       | <b>2016</b>                                    | <b>2015</b>         |
| Property, plant, equipment            | \$ 4,267,857                                   | \$ 4,434,190        |
| Investment property                   | 70   | 70                  |
| Intangible asset                      | <u>23,312</u>                                  | <u>15,468</u>       |
| Depreciation and amortization expense | <u>\$ 4,291,239</u>                            | <u>\$ 4,449,728</u> |

(Continued)



|   | <b>For the Three Months Ended<br/>March 31</b> |                     |
|---|--|---------------------|
|   | <b>2016</b>                                    | <b>2015</b>         |
| An analysis of depreciation by function |  |                     |
| Operating cost                          | \$ 4,096,792                                   | \$ 4,210,750        |
| Operating expense                       | <u>171,135</u>                                 | <u>223,510</u>      |
|   | <u>\$ 4,267,927</u>                            | <u>\$ 4,434,260</u> |
| An analysis of amortization by function |  |                     |
| Operating cost                          | \$ 32  | \$ 211              |
| Operating expense                       | <u>23,280</u>                                  | <u>15,257</u>       |
|   | <u>\$ 23,312</u>                               | <u>\$ 15,468</u>    |

(Concluded)

f. Employment benefit expense

|   | <b>For the Three Months Ended<br/>March 31</b> |                     |
|---|--|---------------------|
|   | <b>2016</b>                                    | <b>2015</b>         |
| Post-employment benefit                             |  |                     |
| Defined contribution plan                           | \$ 101,802                                     | \$ 87,128           |
| Defined benefit plan                                | <u>213,502</u>                                 | <u>135,644</u>      |
|   | <u>\$ 315,304</u>                              | <u>\$ 222,772</u>   |
| Other employee benefits                             |  |                     |
| Salary expenses                                     | \$ 4,998,672                                   | \$ 5,114,835        |
| Personnel service expenses                          | <u>1,403,194</u>                               | <u>1,023,979</u>    |
|   | <u>\$ 6,401,866</u>                            | <u>\$ 6,138,814</u> |
| An analysis of employee benefit expense by function |  |                     |
| Operating cost                                      | \$ 5,319,244                                   | \$ 5,085,295        |
| Operating expense                                   | <u>1,397,926</u>                               | <u>1,276,291</u>    |
|   | <u>\$ 6,717,170</u>                            | <u>\$ 6,361,586</u> |

The existing Articles of Incorporation of the Company stipulate to distribute bonus to employees at the rates 3% of net income. No bonus to employees was estimated for three months ended March 31, 2015 because of a net loss in that year.

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation at the rates no less than 3% of net profit before income tax and employees' compensation in November 2015. For the three months ended March 31, 2016, the employees' compensation is \$490,826 thousand of the base net profit. For the year ended December 31, 2015, the employees' compensation is \$1,810,196 thousand of the base net profit. The employees' compensation in cash for the year ended December 31, 2015 have been approved by the Company's board of directors on January 15, 2016 and are subject to the resolution of the amendments to the Company's Articles of Incorporation for adoption by the shareholders in their meeting to be held on June 24, 2016, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

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

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors resolved by the shareholders' meeting in 2015 and 2014 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:

|   | <b>For the Three Months Ended<br/>March 31</b> |                   |
|---|--|-------------------|
|   | <b>2016</b>                                    | <b>2015</b>       |
| Current tax                                     |  |                   |
| Current year                                    | \$ 49,162                                      | \$ 47,659         |
| Deferred tax                                    |  |                   |
| Current year                                    | <u>309,735</u>                                 | <u>386,489</u>    |
| Income tax expense recognized in profit or loss | <u>\$ 358,897</u>                              | <u>\$ 434,148</u> |

### b. Income tax recognized in other comprehensive income

|   | <b>For the Three Months Ended<br/>March 31</b> |                     |
|---|--|---------------------|
|   | <b>2016</b>                                    | <b>2015</b>         |
| <u>Deferred tax</u>   |  |                     |
| Recognized in other comprehensive income                            |  |                     |
| Translation of foreign operations                                   | \$ 6,930                                       | \$ 3,413            |
| Hedging instruments fair value revaluation for cash flow<br>hedging | <u>4,261</u>                                   | <u>(115,631)</u>    |
| Total income tax recognized in other comprehensive income           | <u>\$ 11,191</u>                               | <u>\$ (112,218)</u> |

### c. Integrated income tax

|                             | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|-----------------------------|---------------------------|------------------------------|---------------------------|
| Imputation credits accounts | <u>\$ 554,402</u>         | <u>\$ 554,402</u>            | <u>\$ 385,435</u>         |

Expected creditable tax ratio on December 31, 2015 was 19.30%.

Since the Group had accumulated deficit as of December 31, 2014, there was no expected creditable tax ratio.

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

d. Income tax assessment

The income tax returns of the Company and its subsidiaries through 2013, except those of Taiwan Air Cargo Terminal Limited (TACT), have been examined by the tax authorities.

The income tax return of TACT for 2001 was assessed by the tax authorities with an additional income tax payable amounting to \$129,350 thousand for the excessive distribution of the imputation credit account (“ICA”) to TACT’s shareholder and a fine equivalent to one fold of the excessive distribution. TACT disagreed with the assessment and appealed to reinvestigation, administrative appeal and administrative proceedings but was ruled denying by tax authority, and the TACT took an appeal. The ruling by the Supreme Administrative Court had agreed to only waive the fine. The tax authority disagreed with the Court’s decision on the waived fine and filed a Retrial on December 29, 2010. In the meantime, TACT also filed a Retrial on January 12, 2011 for the additional tax liability of \$129,350 thousand. The Supreme Administrative Court dismissed both parties’ appeals on December 8, 2011.

As the tax authority still insisted to impose one fold of the amount of the excessive distribution of ICA, TACT therefore filed an administrative appeal to the Ministry of Finance on December 21, 2012. The collection authority then revised the fine to 80% of the amount of the excessive distribution of ICA, but TACT disagreed the decision and filed an administrative appeal to the Ministry of Finance and the fine was revised to 60% of the amount of the excessive distribution of ICA on May 20, 2014. But TACT still disagreed with the decision and filed an administrative proceeding on November 20, 2014. During the hearing of the administrative proceeding, the tax authority proposed to reduce the fine to 50% of the amount of the excessive distribution of ICA based on a tax regulation No. 10304027120 issued by the Ministry of Finance on November 3, 2014.

As of March 31, 2016, the court have not reached any decision concerning the above trial, and the amount of provision recognized by TACT for over-distributed tax and fine was \$168,155 thousand.

### 30. EARNING PER SHARE

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

|  | <b>For the Three Months Ended<br/>March 31</b> |                     |
|--|--|---------------------|
|  | <b>2016</b>                                    | <b>2015</b>         |
| Basic earnings per share                                       | <u>\$0.27</u>                                  | <u>\$0.35</u>       |
| Diluted earnings per share                                     | <u>\$0.26</u>                                  | <u>\$0.33</u>       |
| Earnings used in the computation of basic earnings per share   | \$ 1,463,951                                   | \$ 1,850,379        |
| Effect of potentially dilutive ordinary shares:                |  |                     |
| Interest on convertible bonds (after tax)                      | <u>10,223</u>                                  | <u>15,994</u>       |
| Earnings used in the computation of diluted earnings per share | <u>\$ 1,474,174</u>                            | <u>\$ 1,866,373</u> |

|  | <b>For the Three Months Ended<br/>March 31</b> |                  |
|--|--|------------------|
|  | <b>2016</b>                                    | <b>2015</b>      |
| Weighted average number of ordinary shares in computation of basic earnings per share            | 5,470,891                                      | 5,341,748        |
| Effect of potentially dilutive ordinary shares:  |  |                  |
| Convertible bonds  | 219,306  | 346,902          |
| Employees' compensation or bonus issue to employees  | <u>67,188</u>                                  | <u>-</u>         |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>5,757,385</u>                               | <u>5,688,650</u> |

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

### 31. CAPITAL MANAGEMENT

The goal, policies and procedures as well as the composition of the Group's capital management are same as consolidated financial statement in 2015.

### 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.

|                              | <u>March 31, 2016</u> |               | <u>December 31, 2015</u> |               | <u>March 31, 2015</u> |               |
|------------------------------|-----------------------|---------------|--------------------------|---------------|-----------------------|---------------|
|                              | Carrying<br>Amount    | Fair Value    | Carrying<br>Amount       | Fair Value    | Carrying<br>Amount    | Fair Value    |
| <u>Financial liabilities</u> |                       |               |                          |               |                       |               |
| Bonds payable                | \$ 15,855,696         | \$ 16,279,481 | \$ 15,844,106            | \$ 16,459,680 | \$ 18,763,744         | \$ 18,773,841 |
| Loans and debt               | 86,899,369            | 86,956,059    | 87,783,617               | 87,944,264    | 95,166,764            | 95,247,789    |

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of March 31, 2016, December 31, 2015 and March 31, 2015, the fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.749%, 0.433% and 0.805%, 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

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, 2016

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

December 31, 2015

|                            | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>      |
|----------------------------|-------------------|------------------|----------------|-------------------|
| Financial assets at FVTPL  |                   |                  |                |                   |
| Derivative instrument      | \$ -              | \$ 65,528        | \$ -           | \$ 65,528         |
| Domestic money market fund | <u>478,508</u>    | <u>-</u>         | <u>-</u>       | <u>478,508</u>    |
|                            | <u>\$ 478,508</u> | <u>\$ 65,528</u> | <u>\$ -</u>    | <u>\$ 544,036</u> |

(Continued)

|  | <b>Level 1</b>   | <b>Level 2</b>   | <b>Level 3</b>    | <b>Total</b>                     |
|--|------------------|------------------|-------------------|----------------------------------|
| Available-for-sale financial assets          |                  |                  |                   |                                  |
| Securities listed in domestic                | \$ <u>19,080</u> | \$ <u>-</u>      | \$ <u>-</u>       | \$ <u>19,080</u>                 |
| Derivative financial assets for hedging      | \$ <u>-</u>      | \$ <u>51,060</u> | \$ <u>12,738</u>  | \$ <u>63,798</u>                 |
| Derivative financial liabilities for hedging | \$ <u>-</u>      | \$ <u>12,702</u> | \$ <u>312,278</u> | \$ <u>324,980</u><br>(Concluded) |

March 31, 2015

|  | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b>      | <b>Total</b>        |
|--|-------------------|------------------|---------------------|---------------------|
| Financial assets at FVTPL                    |                   |                  |                     |                     |
| Derivative instrument                        | \$ -              | \$ 21,461        | \$ -                | \$ 21,461           |
| Domestic money market fund                   | <u>330,263</u>    | <u>-</u>         | <u>-</u>            | <u>330,263</u>      |
|  | <u>\$ 330,263</u> | <u>\$ 21,461</u> | <u>\$ -</u>         | <u>\$ 351,724</u>   |
| Financial liabilities at FVTPL               |                   |                  |                     |                     |
| Derivative instrument                        | \$ <u>-</u>       | \$ <u>18,448</u> | \$ <u>-</u>         | \$ <u>18,448</u>    |
| Available-for-sale financial assets          |                   |                  |                     |                     |
| Securities listed in domestic                | \$ <u>26,163</u>  | \$ <u>-</u>      | \$ <u>-</u>         | \$ <u>26,163</u>    |
| Derivative financial assets for hedging      | \$ <u>-</u>       | \$ <u>-</u>      | \$ <u>62,973</u>    | \$ <u>62,973</u>    |
| Derivative financial liabilities for hedging | \$ <u>-</u>       | \$ <u>7,791</u>  | \$ <u>1,784,247</u> | \$ <u>1,792,038</u> |

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

- d) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

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

- e) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

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

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

- b. Categories of financial instruments

|  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|------------------------------|---------------------------|
| <u>Financial assets</u>                          |                           |                              |                           |
| Financial assets at FVTPL                        | \$ 418,644                | \$ 544,036                   | \$ 351,724                |
| Available-for-sale financial assets (Note 3)     | 239,369                   | 242,991                      | 494,873                   |
| Derivative financial assets for hedging          | 31,205                    | 63,798                       | 62,973                    |
| Loans and receivables (Note 1)                   | <u>34,576,012</u>         | <u>35,862,163</u>            | <u>33,407,799</u>         |
|  | <u>\$ 35,265,230</u>      | <u>\$ 36,712,988</u>         | <u>\$ 34,317,369</u>      |
| <u>Financial liabilities</u>                     |                           |                              |                           |
| Financial liabilities at FVTPL                   | \$ 13,297                 | \$ -                         | \$ 18,448                 |
| Derivative financial liabilities for hedging     | 329,779                   | 324,980                      | 1,792,038                 |
| Financial liabilities at amortized cost (Note 2) | <u>121,703,514</u>        | <u>125,241,381</u>           | <u>141,310,511</u>        |
|  | <u>\$ 122,046,590</u>     | <u>\$ 125,566,361</u>        | <u>\$ 143,120,997</u>     |

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

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

Note 3: Including 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.

Sensitivity analysis

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 an decrease in pre-tax profit by the end of March 31, 2016 \$338,346 thousand and increase in pre-tax profit by the end of March 31, 2015 \$55,782 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.

|                               | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|-------------------------------|---------------------------|------------------------------|---------------------------|
| Fair value interest rate risk |                           |                              |                           |
| Financial liabilities         | \$ 16,543,475             | \$ 16,723,881                | \$ 23,909,681             |
| Cash flow interest rate risk  |                           |                              |                           |
| Financial liabilities         | 92,618,590                | 93,742,231                   | 103,514,999               |

#### 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, 2016 would have decreased by \$57,887 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, 2015 would have decreased by \$64,697 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.

|                        | <b>For the Three Months Ended March 31</b>        |   |   |   |
|------------------------|---|---|---|---|
|                        | <b>2016</b>                                       |   | <b>2015</b>                                       |   |
|                        | <b>Pre-tax Profit<br/>Increase<br/>(Decrease)</b> | <b>Other<br/>Compre-<br/>hensive<br/>Income<br/>Increase<br/>(Decrease)</b> | <b>Pre-tax Profit<br/>Increase<br/>(Decrease)</b> | <b>Other<br/>Compre-<br/>hensive<br/>Income<br/>Increase<br/>(Decrease)</b> |
| Fuel price increase 5% | \$ 7,031  | \$ 21,375   | \$ 28,716   | \$ 385,170  |
| Fuel price decrease 5% | (7,113)   | (11,128)  | (28,716)  | 118,721   |

#### 2) Credit risk

The goal, policies and procedure of credit risk management are same as consolidated financial statement in 2015. 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 2015. Related illustration can be referred to Note 32.

### 33. RELATED-PARTY TRANSACTIONS

Details of transactions between the Group and its related parties are disclosed below:

a. Operating transactions

|                             | Sales of Goods                         |                 | Purchases of Goods                     |                   |
|-----------------------------|--|-----------------|--|-------------------|
|                             | For the Three Months Ended<br>March 31 |                 | For the Three Months Ended<br>March 31 |                   |
|                             | 2016                                   | 2015            | 2016                                   | 2015              |
| Associates                  | <u>\$ 775</u>                          | <u>\$ 322</u>   | <u>\$ 166,370</u>                      | <u>\$ 129,520</u> |
| Jointly controlled entities | <u>\$ 3,342</u>                        | <u>\$ 3,526</u> | <u>\$ 394,336</u>                      | <u>\$ 361,814</u> |
| Major stockholder           | <u>\$ 8,847</u>                        | <u>\$ 8,036</u> | <u>\$ 20,034</u>                       | <u>\$ 18,573</u>  |

The amount of accounts receivable - related parties at reporting dates were as follows:

|                             | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|-----------------------------|-------------------|----------------------|-------------------|
| Associates                  | \$ 307            | \$ 182               | \$ 257            |
| Jointly controlled entities | 1,735             | 599                  | 1,777             |
| Major stockholder           | <u>3,346</u>      | <u>3,093</u>         | <u>8,438</u>      |
|                             | <u>\$ 5,388</u>   | <u>\$ 3,874</u>      | <u>\$ 10,472</u>  |

The amount of accounts payable - related parties at reporting dates were as follows:

|                             | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|-----------------------------|-------------------|----------------------|-------------------|
| Associates                  | \$ 81,788         | \$ 98,245            | \$ 87,632         |
| Jointly controlled entities | 401,919           | 388,371              | 370,257           |
| Major stockholder           | <u>7,302</u>      | <u>7,138</u>         | <u>7,688</u>      |
|                             | <u>\$ 491,009</u> | <u>\$ 493,754</u>    | <u>\$ 465,577</u> |

The outstanding accounts payable from related parties are unsecured and will be paid in cash, the terms of making collections and payables is from 30 days to 60 days; accounts receivable from related parties does not gather any deposit, and no expense was recognized for allowance for impairment loss.

b. Lease of properties

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental on usage hours. As of March 31, 2016 and 2015, the Company had paid rentals of \$20,034 thousand and \$18,573 thousand, respectively.

c. Endorsements and guarantees

|                           | <u>March 31, 2016</u>    |                           | <u>December 31, 2015</u> |                           | <u>March 31, 2015</u>    |                           |
|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
|                           | <u>Authorized Amount</u> | <u>Actual Amount Used</u> | <u>Authorized Amount</u> | <u>Actual Amount Used</u> | <u>Authorized Amount</u> | <u>Actual Amount Used</u> |
| <u>The Company</u>        |                          |                           |                          |                           |                          |                           |
| Cal Park                  | \$ 3,400,000             | \$ 2,656,000              | \$ 3,400,000             | \$ 2,739,000              | \$ 3,400,000             | \$ 2,822,000              |
| Taiwan Air Cargo Terminal | 1,080,000                | 491,515                   | 1,080,000                | 486,815                   | 1,080,000                | 559,192                   |
| Freighter Prince Ltd.     | -                        | -                         | 236,629                  | 236,629                   | 276,003                  | 276,003                   |
| Cal Hotel                 | 180,000                  | 4,757                     | 180,000                  | 6,343                     | 180,000                  | 11,100                    |
| Tigerair Taiwan           | 916,785                  | 437,329                   | 937,895                  | 447,399                   | 891,000                  | 210,642                   |

d. Compensation of key management personnel

|                              | <u>For the Three Months Ended March 31</u> |                  |
|------------------------------|--|------------------|
|                              | <u>2016</u>                                | <u>2015</u>      |
| Short-term employee benefits | \$ 17,145                                  | \$ 11,339        |
| Post-employment benefits     | <u>804</u>                                 | <u>510</u>       |
|                              | <u>\$ 17,949</u>                           | <u>\$ 11,849</u> |

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

### 34. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for long-term and short-term bank loans, lease obligations and business transactions:

|                                | <u>March 31, 2016</u> | <u>December 31, 2015</u> | <u>March 31, 2015</u> |
|--------------------------------|-----------------------|--------------------------|-----------------------|
| Property, plant and equipment  | \$ 86,496,097         | \$ 90,642,565            | \$ 105,074,645        |
| Restricted assets - noncurrent |                       |                          |                       |
| Pledged certificate deposits   | 132,657               | 268,790                  | 250,765               |
| US treasury bill               | <u>-</u>              | <u>236,634</u>           | <u>276,003</u>        |
|                                | <u>\$ 86,628,754</u>  | <u>\$ 91,147,989</u>     | <u>\$ 105,601,413</u> |

The above US treasury bill had been pledged as collaterals for Freighter Prince Ltd. classified as restricted assets - noncurrent.

### 35. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2016, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

- In January 2008, the Group entered into a contract to buy fourteen A350-900 planes from Airbus, with the option to buy six more A350-900 planes, with aggregate purchase prices of US\$3,933,235 thousand and US\$1,802,645 thousand, respectively. Excepted delivery slots of aircraft from 2016 to 2018.

Prepayments for aircraft purchases were as follows:

| <b>March 31, 2016</b> | <b>December 31, 2015</b> | <b>March 31, 2015</b> |
|-----------------------|--------------------------|-----------------------|
| US\$769,086 thousand  | US\$685,231 thousand     | US\$504,544 thousand  |

- b. In December 2012, the Group entered into a contract to buy six 777-300ER planes from the Boeing Company, with the option to buy six more 777-300ER planes, at aggregate purchase prices of US\$2,068,783 thousand and US\$2,213,015 thousand, respectively. Expected delivery slots of aircrafts are from 2015 to 2016. The board of the Group has resolved to transfer the purchase right of the confirm orders for six aircrafts to the aircraft leasing Group then lease back.

The Group had signed lease contract with SKY HIGH XXXVII/XXXVIII Leasing Company Limited. As of March 31, 2016, five aircrafts had been delivered and had received prepayment.

Prepayments for aircraft purchase were as follows:

| <b>March 31, 2016</b> | <b>December 31, 2015</b> | <b>March 31, 2015</b> |
|-----------------------|--------------------------|-----------------------|
| US\$93,884 thousand   | US\$197,912 thousand     | US\$470,352 thousand  |

- c. For the future development of Company business, the Company made a lease contract with BOC Aviation and letter to lease six 737-800 aircrafts. The expected delivery slot will be August 2016.
- d. The Tigerair Taiwan entered into the four A320-200 aircrafts lease contract with 10 years term on July 2015, November 2015 and December 2015. One of aircraft had been delivered in January 2016. The expected delivery of other three aircrafts will be in June 2016, January 2017 and December 2017.
- e. 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 in 2003. The total estimated expense of the construction project was \$8,490,000 thousand. Designation of project was from 2004 and the construction began in 2008. TACT filed application for a 10-year extension of the COP for the cargo terminals in Taiwan Toayuan International Airport and Koahsiung International Airport, and got the approvals from Toayuan 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 revised the total amount to \$6,840,000 thousand.

As of March 31, 2016, TACT had signed the following construction contracts with unrelated parties:

| <b>Client Name</b>                        | <b>Contract Title</b>  | <b>Contract Amount (VAT Included)</b> |
|---|--|---------------------------------------|
| CECI Engineering Consultant, Inc., Taiwan | Cargo Terminal Expansion Construction Consultant Contract  | \$ 552,285                            |
| Siemens Taiwan                            | Cargo Terminal Expansion Construction First-Stage and Second-Stage Storage And Transport Facilities Contract | 1,892,400                             |
| Chen-Jia Construction Co.                 | Paint steel columns and roof renewal works Contract  | 86,380                                |

As of March 31, 2016, the cumulated consultant service expense and construction equipment had amounted to \$412,904 thousand (VAT included) and \$4,131,895 thousand (VAT included), respectively. Upon completion of the projects, the amounts of \$410,041 thousand (VAT included) and \$4,067,453 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.

- f. TACT should pay royalties to 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 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. The royalty rates are based on CAA letter order No. 1000021973 and have remained the same as those in the original contract signed in April 2012; these rates were listed as follows:

| <b>Annual Operating Amount</b>            | <b>Royalty Rate</b> |
|---|---------------------|
| 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%              |

- g. 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 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 rates for the development stage differ from those for the operation period. It 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 amount 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 refunded security deposits of \$50,000 thousand with no interest.

In 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 executing 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 an 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 day of chartered period. If CAA decides not to keep the building and equipment on the base, CAL Park Co., Ltd. should remove all related building and equipment within three months after the expiry date.

- h. The Company has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action filed with the US Northern District Court of California by some passengers, who alleged that there was an antitrust violation. The Company has properly joined the defendants' Joint Defense Group. The litigation is at the pretrial stage, and no evidence supporting the plaintiffs' allegation has been raised so far.
- i. The Company has reached a settlement with class plaintiffs of "Air Cargo Antitrust Class Action". One of plaintiffs - DHL Global Forwarding (DHL) et al. has opted out from class plaintiffs. In early 2015, DHL has filed civil lawsuit against the Company. The Company already appointed lawyer to duly react.

### 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, 2016

|                              | Foreign<br>Currencies | Exchange Rate | Carrying<br>Amount |
|------------------------------|-----------------------|---------------|--------------------|
| <u>Financial assets</u>      |                       |               |                    |
| 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          |
| <u>Financial liabilities</u> |                       |               |                    |
| 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            |

December 31, 2015

|                              | <b>Foreign<br/>Currencies</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u>      |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | \$ 371,091                    | 32.8947              | \$ 12,206,940              |
| EUR                          | 16,153                        | 35.9712              | 569,778                    |
| HKD                          | 230,469                       | 4.2445               | 978,224                    |
| JPY                          | 1,769,067                     | 0.2731               | 483,136                    |
| CNY                          | 2,105,839                     | 5.0659               | 10,667,121                 |
| <u>Financial liabilities</u> |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | 153,815                       | 32.8947              | 5,059,699                  |
| EUR                          | 8,353                         | 35.9712              | 299,732                    |
| HKD                          | 87,413                        | 4.2445               | 371,024                    |
| JPY                          | 4,632,721                     | 0.2731               | 1,265,198                  |
| CNY                          | 150,973                       | 5.0659               | 764,813                    |

March 31, 2015

|                              | <b>Foreign<br/>Currencies</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u>      |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | \$ 234,831                    | 31.2500              | \$ 7,338,460               |
| EUR                          | 15,491                        | 33.8983              | 525,111                    |
| HKD                          | 217,088                       | 4.0355               | 876,058                    |
| JPY                          | 2,861,191                     | 0.2605               | 745,329                    |
| CNY                          | 2,334,275                     | 5.0429               | 11,771,501                 |
| <u>Financial liabilities</u> |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | 439,472                       | 31.2500              | 13,733,509                 |
| EUR                          | 5,536                         | 33.8983              | 187,669                    |
| HKD                          | 73,769                        | 4.0355               | 297,696                    |
| JPY                          | 5,051,098                     | 0.2605               | 1,315,806                  |
| CNY                          | 146,074                       | 5.0429               | 736,634                    |

For the three months ended March 31, 2016 and 2015, net foreign exchange gains (losses) were \$(234,787) thousand and \$1,522 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 37. ADDITIONAL DISCLOSURES

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

1) Financing provided: None

- 2) Endorsement/guarantee provided: Table 1 (attached)
  - 3) Marketable securities held: Table 2 (attached)
  - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
  - 5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None
  - 6) Disposal of individual real estates at cost or prices of at least NT\$100 million or 20% of the paid-in capital: None
  - 7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached).
  - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached).
  - 10) Derivative financial transactions (Notes 7 and 9)
- b. Investment in Mainland China: Table 6 (attached)
- c. Business relationship and important transactions between China Airline, 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. The major revenue-generating asset is the aircraft fleet, which is jointly used for passenger and cargo services. Thus, the Company's sole reportable segment is the flight segment. For operating segment reporting in the consolidated financial statements, the reportable segment of the Company and its consolidated subsidiaries comprises the flight and the non-flight business departments. Accounting policy applied for reportable segment is consistent with the policy mentioned in Note 4.

|   | <b>For the Three Months Ended March 31, 2016</b> |                     |                                     | <b>Total</b>         |
|---|--|---------------------|-------------------------------------|----------------------|
|   | <b>Air<br/>Transportation</b>                    | <b>Others</b>       | <b>Adjustment and<br/>Write-off</b> |                      |
| Operating revenue                                       | <u>\$ 34,645,086</u>                             | <u>\$ 1,907,887</u> | <u>\$ (1,553,950)</u>               | <u>\$ 34,999,023</u> |
| Operation profit and losses                             | <u>\$ 2,134,237</u>                              | <u>\$ 236,977</u>   | <u>\$ -</u>                         | \$ 2,371,214         |
| Interest revenue  |  |                     |                                     | 91,229               |
| Investment income accounted for by<br>the equity method |  |                     |                                     | 123,610              |

(Continued)



**For the Three Months Ended March 31, 2016**

|   | <b>Air<br/>Transportation</b> | <b>Others</b>       | <b>Adjustment and<br/>Write-off</b> | <b>Total</b>                         |
|---|-------------------------------|---------------------|-------------------------------------|--------------------------------------|
| Revenue                                       |                               |                     |                                     | \$ 48,047                            |
| Financial cost                                |                               |                     |                                     | (345,266)                            |
| Expense                                       |                               |                     |                                     | <u>(422,472)</u>                     |
| Profit before income tax                      |                               |                     |                                     | <u>\$ 1,866,362</u>                  |
| Identifiable assets                           | <u>\$ 120,961,758</u>         | <u>\$ 9,618,832</u> | <u>\$ -</u>                         | \$ 130,580,590                       |
| Investment accounted for by the equity method |                               |                     |                                     | 2,975,485                            |
| Assets  |                               |                     |                                     | <u>84,964,297</u>                    |
| Total assets                                  |                               |                     |                                     | <u>\$ 218,520,372</u><br>(Concluded) |

**For the Three Months Ended March 31, 2015**

|  | <b>Air<br/>Transportation</b> | <b>Others</b>       | <b>Adjustment and<br/>Write-off</b> | <b>Total</b>          |
|--|-------------------------------|---------------------|-------------------------------------|-----------------------|
| Operating revenue                                    | <u>\$ 37,066,060</u>          | <u>\$ 1,827,743</u> | <u>\$ (1,729,898)</u>               | <u>\$ 37,163,905</u>  |
| Operation profit and losses                          | <u>\$ 2,384,091</u>           | <u>\$ 166,998</u>   | <u>\$ 9,125</u>                     | \$ 2,560,214          |
| Interest revenue                                     |                               |                     |                                     | 107,241               |
| Investment income accounted for by the equity method |                               |                     |                                     | 116,316               |
| Revenue  |                               |                     |                                     | 155,005               |
| Financial cost                                       |                               |                     |                                     | (484,854)             |
| Expense  |                               |                     |                                     | <u>(137,570)</u>      |
| Profit before income tax                             |                               |                     |                                     | <u>\$ 2,316,352</u>   |
| Identifiable assets                                  | <u>\$ 131,622,223</u>         | <u>\$ 9,687,184</u> | <u>\$ (12,220)</u>                  | \$ 141,297,187        |
| Investment accounted for by the equity method        |                               |                     |                                     | 2,914,431             |
| Assets   |                               |                     |                                     | <u>84,985,007</u>     |
| Total assets   |                               |                     |                                     | <u>\$ 229,196,625</u> |

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE THREE MONTHS ENDED MARCH 31, 2016  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. | Endorsement/<br>Guarantee<br>Provider | Counter-party             |   | Limits on Each<br>Counter-party's<br>Endorsement/<br>Guarantee<br>Amounts<br>(Note 1) | Maximum<br>Balance for the<br>Period | Ending Balance | Actual<br>Borrowing<br>Amount | Value of<br>Collaterals<br>Property, Plant,<br>or Equipment | Ratio of<br>Accumulated<br>Amount of<br>Collateral to<br>Net Equity of<br>the Latest<br>Financial<br>Statement (%) | Maximum<br>Collateral/<br>Guarantee<br>Amounts<br>Allowable<br>(Note 2) | Endorsement/<br>Guarantee<br>Given by Parent<br>on Behalf of<br>Subsidiaries | Endorsement/<br>Guarantee<br>Given by<br>Subsidiaries on<br>Behalf of Parent | Endorsement/<br>Guarantee<br>Given on Behalf<br>of Companies in<br>Mainland China |
|-----|---------------------------------------|---------------------------|---|---|--------------------------------------|----------------|-------------------------------|---|--|---|--|--|---|
|     |                                       | Name                      | Nature of Relationship                            |   |                                      |                |                               |   |  |   |  |  |   |
| 0   | China Airlines<br>(the "Company")     | Cal Park                  | 100% subsidiary                                   | \$ 11,932,880   | \$ 3,400,000                         | \$ 3,400,000   | \$ 2,656,000                  | \$ -  | 5.70   | \$ 29,832,201   | Y  | N  | N   |
|     |                                       | Taiwan Air Cargo Terminal | 54% subsidiary                                    | 11,932,880  | 1,080,000                            | 1,080,000      | 491,515                       | -   | 1.81   | 29,832,201  | Y  | N  | N   |
|     |                                       | Freighter Prince Ltd.     | 100% subsidiary                                   | 11,932,880  | 240,586                              | -              | -                             | -   | -  | 29,832,201  | Y  | N  | N   |
|     |                                       | Cal Hotel                 | 100% subsidiary                                   | 11,932,880  | 180,000                              | 180,000        | 4,757                         | -   | 0.30   | 29,832,201  | Y  | N  | N   |
|     |                                       | Tigerair Taiwan Ltd.      | 90% subsidiary by direct<br>and indirect holdings | 11,932,880  | 953,579                              | 916,785        | 437,329                       | -   | 1.54   | 29,832,201  | 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, 2016

(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, 2016 |                |                         |                                 | Note   |
|--------------------------------|--|---------------------------------------|---|----------------|----------------|-------------------------|---------------------------------|--------|
|                                |  |                                       |   | Shares/Units   | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value |        |
| China Airlines (the "Company") | <u>Stock</u>   |                                       |   |                |                |                         |                                 |        |
|                                | Everest Investment Holdings Ltd. - common stock      | -                                     | Financial assets carried at cost - noncurrent                   | 1,359,368      | \$ 52,704      | 13.59                   | \$ 96,249                       | 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                   | 22,948                          | -      |
|                                | Jardine Air Terminal Services                        | -                                     | Financial assets carried at cost - noncurrent                   | 12,000,000     | 56,023         | 15.00                   | 44,374                          | -      |
|                                | Regal International Advertising                      | -                                     | Financial assets carried at cost - noncurrent                   | 592,500        | 5,925          | 6.22                    | 189                             | -      |
| Mandarin Airlines              | <u>Stock</u>   |                                       |   |                |                |                         |                                 |        |
|                                | China Airlines                                       | Parent company                        | Available-for-sale financial asset - current                    | 2,074,628      | 23,858         | -                       | 23,858                          | -      |
|                                | <u>Beneficial certificates</u>                       |                                       |   |                |                |                         |                                 |        |
|                                | Fuh Hwa Money Market Fund                            | -                                     | Financial assets at fair value through profit or loss - current | 5,245,428.9    | 60,405         | -                       | 60,405                          | -      |
|                                | Barclays America Bonds Fund                          | -                                     | Financial assets at fair value through profit or loss - current | 1,000,000      | 32,392         | -                       | 32,392                          | -      |
|                                | Deutsche America Bonds Fund                          | -                                     | Financial assets at fair value through profit or loss - current | 1,000,000      | 32,007         | -                       | 32,007                          | -      |
| Cal-Asia Investment            | <u>Stock</u>   |                                       |   |                |                |                         |                                 |        |
|                                | Taikoo (Xiamen) Landing Gear Services                | -                                     | Financial assets carried at cost - noncurrent                   | -              | 74,507         | 5.83                    | 17,608                          | Note 2 |
|                                | Taikoo Spirit Aerospace Systems (Jinjiang) Composite | -                                     | Financial assets carried at cost - noncurrent                   | -              | 21,624         | 5.45                    | 19,930                          | Note 2 |
| Sabre Travel Network (Taiwan)  | <u>Beneficial certificates</u>                       |                                       |   |                |                |                         |                                 |        |
|                                | Mirae Asset Solomon Money Market Fund                | -                                     | Financial assets at fair value through profit or loss - current | 265,726        | 3,314          | -                       | 3,314                           | -      |
|                                | Taishin 1699 Money Market Fund                       | -                                     | Financial assets at fair value through profit or loss - current | 1,908,518      | 25,516         | -                       | 25,516                          | -      |
|                                | Taishin Ta Chong Money Market Fund                   | -                                     | Financial assets at fair value through profit or loss - current | 2,137,590      | 30,011         | -                       | 30,011                          | -      |
|                                | Mega Diamond Money Market Fund                       | -                                     | Financial assets at fair value through profit or loss - current | 4,637,002      | 57,450         | -                       | 57,450                          | -      |
|                                | Franklin Templeton Sinoam Money Market Fund          | -                                     | Financial assets at fair value through profit or loss - current | 5,523,758      | 56,391         | -                       | 56,391                          | -      |
|                                | Allianz Taiwan Money Market Fund                     | -                                     | Financial assets at fair value through profit or loss - current | 5,041,011      | 62,417         | -                       | 62,417                          | -      |
|                                | FSITC Taiwan Money Market Fund                       | -                                     | Financial assets at fair value through profit or loss - current | 2,618,737      | 39,575         | -                       | 39,575                          | -      |

(Continued)

| Holding Company Name    | Marketable Securities Type and Issuer/Name                       | Relationship with the Holding Company | Financial Statement Account                                     | March 31, 2016 |                |                         |                                 | Note |
|-------------------------|--|---------------------------------------|---|----------------|----------------|-------------------------|---------------------------------|------|
|                         |  |                                       |   | Shares/Units   | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value |      |
| Taiwan Airport Services | <u>Stock</u><br>TransAsia Airways                                | -                                     | Available-for-sale financial asset - noncurrent                 | 2,287,786      | \$ 17,113      | 0.4                     | \$ 17,113                       | -    |
| Hwa Hsia                | <u>Stock</u><br>China Airlines                                   | Parent company                        | Available-for-sale financial asset - current                    | 814,152        | 9,363          | -                       | 9,363                           | -    |
|                         | <u>Beneficial certificates</u><br>Taishin 1699 Money Market Fund | -                                     | Financial assets at fair value through profit or loss - current | 349,523        | 4,673          | -                       | 4,673                           | -    |
| Hwa Sin                 | <u>Beneficial certificates</u><br>Taishin 1699 Money Market Fund | -                                     | Financial assets at fair value through profit or loss - current | 157,070        | 2,100          | -                       | 2,100                           | -    |

Note 1: The subsidiary's net asset value was \$96,249 thousand, which included common stock and preferred stock as of and for the three months ended March 31, 2016.

Note 2: The net asset value was calculated using the audited financial statements for the year ended December 31, 2015, because the investee's audited financial statements were not prepared on time.

(Concluded)

**CHINA AIRLINES, LTD. AND SUBSIDIARIES**

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE THREE MONTHS ENDED MARCH 31, 2016**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name                               | Related Party                         | Nature of Relationship | Transaction Details |              |            |               | Abnormal Transaction |               | Note/Account Payable or Receivable |            | Note |
|--|---------------------------------------|------------------------|---------------------|--------------|------------|---------------|----------------------|---------------|------------------------------------|------------|------|
|  |                                       |                        | Purchase/Sale       | Amount       | % to Total | Payment Terms | Unit Price           | Payment Terms | Ending Balance                     | % to Total |      |
| China Airlines, Ltd.<br>("China Airlines") | Mandarin Airlines                     | Subsidiary             | Sale                | \$ (737,326) | 2.33       | 2 months      | \$ -                 | -             | \$ 606,247                         | 7.46       | -    |
|  | China Pacific Catering Services       | Equity-method investee | Purchase            | 368,858      | 1.38       | 60 days       | -                    | -             | (384,309)                          | 21.70      | -    |
|  | Taoyuan International Airport Service | Subsidiary             | Purchase            | 275,184      | 1.03       | 40 days       | -                    | -             | (335,764)                          | 18.96      | -    |

## 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, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name                            | Related Party     | Nature of Relationship | Ending Balance | Turnover Rate | Overdue |              | Amounts Received<br>in Subsequent<br>Period | Allowance for<br>Bad Debts |
|---|-------------------|------------------------|----------------|---------------|---------|--------------|---|----------------------------|
|   |                   |                        |                |               | Amount  | Action Taken |   |                            |
| China Airlines, Ltd. ("China Airlines") | Mandarin Airlines | Subsidiary             | \$ 606,247     | 5.26          | \$ -    | -            | \$ 277,142                                  | \$ -                       |
| Mandarin Airlines                       | China Airlines    | Parent company         | 217,926        | 0.37          | -       | -            | 203,535                                     | -                          |
| China Pacific Catering Services         | China Airlines    | Parent company         | 384,309        | 3.91          | -       | -            | 128,569                                     | -                          |
| Taoyuan International Airport Service   | China Airlines    | Parent company         | 335,764        | 3.41          | -       | -            | 193,194                                     | -                          |

Note: Transaction with subsidiaries have been written off in consolidated financial report.

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE THREE MONTHS ENDED MARCH 31, 2016  
(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, 2016 |                         |                | Net Income (Loss) of the Investee | Investment Income (Loss) | Note   |
|---|--|--|---|-------------------|-------------------|------------------------------|-------------------------|----------------|-----------------------------------|--------------------------|--------|
|   |  |  |   | March 31, 2016    | December 31, 2015 | Shares                       | Percentage of Ownership | Carrying Value |                                   |                          |        |
| China Airlines, Ltd.                                  | Cal Park                               | Taoyuan, Taiwan                                | Real estate lease and international trade   | \$ 1,500,000      | \$ 1,500,000      | 150,000,000                  | 100.00                  | \$ 1,514,381   | \$ 3,557                          | \$ 3,557                 | -      |
|   | Mandarin Airlines                      | Taipei, Taiwan                                 | Air transportation and maintenance of aircraft                                      | 2,042,368         | 2,042,368         | 188,154,025                  | 93.99                   | 1,344,299      | (20,171)                          | (18,958)                 | Note 1 |
|   | Taiwan Air Cargo Terminal              | Taoyuan, Taiwan                                | Air cargo and storage   | 1,350,000         | 1,350,000         | 135,000,000                  | 54.00                   | 1,252,834      | (13,447)                          | (7,261)                  | -      |
|   | 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                  | 1,221,453      | 10,235                            | 10,235                   | Note 2 |
|   | China Pacific Catering Services        | Taoyuan, Taiwan                                | In-flight catering  | 439,110           | 439,110           | 43,911,000                   | 51.00                   | 758,697        | 106,961                           | 54,550                   | -      |
|   | Taoyuan International Airport Services | Taoyuan, Taiwan                                | Airport services  | 147,000           | 147,000           | 34,300,000                   | 49.00                   | 764,024        | 85,471                            | 41,881                   | -      |
|   | Cal-Asia Investment                    | Territory of the British Virgin Islands        | General investment  | US\$ 7,172        | US\$ 7,172        | 7,172,346                    | 100.00                  | 596,515        | 2,769                             | 2,769                    | -      |
|   | Sabre Travel Network (Taiwan)          | Taipei, Taiwan                                 | Sale and maintenance of hardware and software                                       | 52,200            | 52,200            | 13,021,042                   | 93.93                   | 476,519        | 40,901                            | 38,418                   | -      |
|   | China Aircraft Service                 | Hong Kong International Airport                | Airport services  | HK\$ 58,000       | HK\$ 58,000       | 28,400,000                   | 20.00                   | 497,550        | 84,911                            | 16,982                   | -      |
|   | Asian Compressor Technology Services   | Taoyuan, Taiwan                                | Research, manufacture and maintenance of engines                                    | 77,322            | 77,322            | 7,732,000                    | 24.50                   | 287,340        | 98,978                            | 24,250                   | -      |
|   | Taiwan Airport Services                | Taipei, Taiwan                                 | Airport services  | 12,289            | 12,289            | 20,626,644                   | 47.35                   | 275,800        | 35,549                            | 16,832                   | -      |
|   | Kaohsiung Catering Services            | Kaohsiung, Taiwan                              | In-flight catering  | 140,240           | 140,240           | 14,329,759                   | 35.78                   | 259,441        | 40,631                            | 14,538                   | -      |
|   | Cal Hotel Co., Ltd                     | Taoyuan, Taiwan                                | Hotel business  | 465,000           | 465,000           | 46,500,000                   | 100.00                  | 335,964        | 22,089                            | 22,089                   | -      |
|   | Science Park Logistics                 | Tainan, Taiwan                                 | Storage and customs of services   | 214,745           | 150,654           | 18,633,937                   | 26.00                   | 251,764        | 15,709                            | 4,084                    | Note 5 |
|   | China Pacific Laundry Services         | Taoyuan, Taiwan                                | Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs | 137,500           | 137,500           | 13,750,000                   | 55.00                   | 165,585        | 6,757                             | 3,716                    | -      |
|   | Hwa Hsia                               | Taoyuan, Taiwan                                | Cleaning of aircraft and maintenance of machine and equipment                       | 50,000            | 50,000            | 50,000                       | 100.00                  | 93,589         | 3,732                             | 3,732                    | Note 1 |
|   | Yestrip                                | Taipei, Taiwan                                 | Travel business   | 26,265            | 26,265            | 1,600,000                    | 100.00                  | 25,320         | 159                               | 159                      | -      |
|   | Dynasty Holidays                       | Tokyo, Japan                                   | Travel business   | JPY 20,400        | JPY 20,400        | 408                          | 51.00                   | 29,858         | 769                               | 392                      | -      |
|   | Global Sky Express                     | Taipei, Taiwan                                 | Forwarding and storage of air cargo   | 2,500             | 2,500             | 250,000                      | 25.00                   | 7,954          | 1,229                             | 307                      | -      |
|   | Freighter Princess Ltd.                | Cayman Islands                                 | Aircraft lease  | US\$ 1            | US\$ 1            | 1,000                        | 100.00                  | 32             | -                                 | -                        | -      |
| Freighter Prince Ltd.                                 | Cayman Islands                         | Aircraft lease                                 | US\$ 1  | US\$ 1            | 1,000             | 100.00                       | 32                      | -              | -                                 | -                        |        |
| Tigerair Taiwan Co., Ltd.                             | Taipei, Taiwan                         | Air transportation and maintenance of aircraft | 1,600,000   | 1,600,000         | 160,000,000       | 80.00                        | 848,600                 | (157,293)      | (125,835)                         | -                        |        |
| Taiwan Aircraft Maintenance and Engineering Co., Ltd. | Taoyuan, Taiwan                        | Aircraft maintenance                           | 60,000  | 60,000            | 6,000,000         | 100.00                       | 37,103                  | (4,628)        | (4,628)                           | -                        |        |
| Mandarin Airlines                                     | Tigerair Taiwan Co., Ltd.              | Taipei, Taiwan                                 | Air transportation and maintenance of aircraft                                      | 200,000           | 200,000           | 20,000,000                   | 10.00                   | 106,075        | (157,293)                         | (15,729)                 | -      |
|   | Taiwan Airport Services                | Taipei, Taiwan                                 | Airport services  | 11,658            | 3,574             | 469,755                      | 1.08                    | 6,273          | 35,549                            | 119                      | Note 4 |
| Cal-Asia Investment                                   | Eastern United International Logistics | Hong Kong                                      | Forwarding and storage of air cargo   | HK\$ 3,329        | HK\$ 3,329        | 1,050,000                    | 35.00                   | 41,612         | 1,200                             | 420                      | -      |
| Taiwan Airport Services                               | Taiwan Airport Service (Samoa)         | Samoa  | Airport services and investment   | US\$ 5,877        | US\$ 5,877        | -                            | 100.00                  | 440,741        | 2,534                             | 2,534                    | Note 3 |
| Hwa Hsia  | Hwa Shin Building Safeguard            | Taoyuan, Taiwan                                | Building security and maintenance services  | 10,000            | 10,000            | 1,000,000                    | 100.00                  | 23,164         | 1,658                             | 1,658                    | -      |

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

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

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

Note 4: Have acquired noncontrolling interests of Taiwan Airport Services from September 2015.

Note 5: On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common stock for cash and with the date of right issues granted on was December 25, 2015. The board of Company has reached an agreement to purchase \$64,091 thousand which had been remitted to SPL. SPL completed the registration of this subscription on January 22, 2016.

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

## INVESTMENTS IN MAINLAND CHINA

FOR THE THREE MONTHS ENDED MARCH 31, 2016

(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, 2016 | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of March 31, 2016 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Value as of March 31, 2016 | Accumulated Inward Remittance of Earnings as of March 31, 2016 |
|---|---|---------------------------------|----------------------|---|------------------|--------|--|-----------------------------------|--|------------------------|-------------------------------------|--|
|   |   |                                 |                      |   | Outflow          | Inflow |  |                                   |  |                        |                                     |  |
| Airport Air Cargo Terminal (Xiamen) Co., Ltd. | Forwarding and storage of air cargo       | \$ 1,117,928<br>(RMB 224,480)   | Indirect<br>(Note 1) | \$ 134,598<br>(US\$ 4,186)  | \$ -             | \$ -   | \$ 134,598<br>(US\$ 4,186)   | \$ 3,440<br>(RMB 677)             | 14.00  | \$ 482<br>(RMB 95)     | \$ 244,313<br>(RMB 49,058)          | \$ 58,328<br>(US\$ 1,814)<br>(Note 4)                          |
| Airport Air Cargo Service (Xiamen) Co., Ltd.  | Forwarding and storage of air cargo       | 69,721<br>(RMB 14,000)          | Indirect<br>(Note 1) | 62,605<br>(US\$ 1,947)  | -                | -      | 62,605<br>(US\$ 1,947)   | 14,665<br>(RMB 2,886)             | 14.00  | 2,054<br>(RMB 404)     | 113,012<br>(RMB 22,693)             |  |
| Taikoo (Xiamen) Landing Gear Services         | Landing gear maintenance services         | 1,186,174<br>(US\$ 36,890)      | Indirect<br>(Note 1) | 69,164<br>(US\$ 2,151)  | -                | -      | 69,164<br>(US\$ 2,151)   |                                   | 5.83   |                        | 74,507<br>(RMB 14,961)              |  |
| Taikoo Spirit Aerospace Systems (Jinjang)     | Composite material                        | 375,016<br>(US\$ 11,663)        | Indirect<br>(Note 1) | 20,450<br>(US\$ 636)  | -                | -      | 20,450<br>(US\$ 636)   |                                   | 5.45   |                        | 21,624<br>(RMB 4,342)               |  |
| Shanghai Eastern Aircraft Maintenance         | Aircraft line maintenance                 | 99,678<br>(US\$ 3,100)          | Indirect<br>(Note 2) | 7,974<br>(US\$ 248)   | -                | -      | 7,974<br>(US\$ 248)  |                                   | 8.00   |                        | 7,974<br>(US\$ 248)                 |  |
| Shanghai Eastern United International         | Forwarding of air cargo and ocean freight | 32,154<br>(US\$ 1,000)          | Indirect<br>(Note 3) | 5,531<br>(US\$ 172)   | -                | -      | 5,531<br>(US\$ 172)  |                                   | 17.15  |                        | 5,531<br>(US\$ 172)                 |  |

| Accumulated Investment in Mainland China as of March 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Limit on Investment   |
|---|--|-----------------------|
| \$300,322 (US\$9,340)   | \$524,424 (Note 5)   | \$37,191,973 (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, 2016 | Remittance of Funds |        | Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2016 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Income (Loss) | Carrying Amount as of March 31, 2016 | Accumulated Repatriation of Investment Income as of March 31, 2016 |
|---|-------------------------------------|-------------------------------|----------------------|---|---------------------|--------|--|-----------------------------------|--|--------------------------|--------------------------------------|--|
|   |                                     |                               |                      |   | Outward             | Inward |  |                                   |  |                          |                                      |  |
| Airport Air Cargo Terminal (Xiamen) Co., Ltd. | Forwarding and storage of air cargo | \$ 1,117,928<br>(RMB 224,480) | Indirect<br>(Note 7) | \$ 132,090<br>(US\$ 4,108)  | \$ -                | \$ -   | \$ 132,090<br>(US\$ 4,108)   | \$ 3,440<br>(RMB 677)             | 14.00  | \$ 481<br>(RMB 95)       | \$ 242,920<br>(RMB 48,778)           | \$ 108,189<br>(US\$ 3,365)   |
| Airport Air Cargo Service (Xiamen) Co., Ltd.  | Forwarding and storage of air cargo | 69,721<br>(RMB 14,000)        | Indirect<br>(Note 7) | 61,961<br>(US\$ 1,927)  | -                   | -      | 61,961<br>(US\$ 1,927)   | 14,665<br>(RMB 2,886)             | 14.00  | 2,053<br>(RMB 404)       | 113,251<br>(RMB 22,741)              | 36,663<br>(US\$ 1,140)   |

| Accumulated Outward Remittance for Investment in Mainland China as of March 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|--|--|---|
| \$191,158 (US\$5,945)  | \$191,158 (US\$5,945)  | \$349,482 (Note 6)  |

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

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

Note 3: Cal-Asia Investment invested in Eastern United International Logistics (Holdings), which in turn, invested in a company located in Mainland China.

Note 4: The inward remittance of earnings in 2015 amounted to US\$1,814,300.

Note 5: The amount comprised US\$14,518,757, 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 RELATIONSHIP AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINE, LTD. AND ITS SUBSIDIARIES

FOR THE THREE MONTHS ENDED MARCH 31, 2016

(In Thousands of New Taiwan Dollars)

| No.   | Company Name         | Related Party                               | Natural of Relationship<br>(Note 1) | Intercompany Transactions             |           |                                   |   |
|---|----------------------|---|-------------------------------------|---------------------------------------|-----------|-----------------------------------|---|
|   |                      |   |                                     | Accounts                              | Amount    | Transaction Criteria              | % to Total Consolidated Total Revenue or Assets |
| 0   | China Airlines, Ltd. | Global Sky Express                          | a                                   | Cargo revenue                         | \$ 21,379 | The same as ordinary transactions | 0.06  |
|   |                      | Mandarin Airlines                           | a                                   | Passenger revenue                     | 633,867   | The same as ordinary transactions | 1.81  |
|   |                      | Taiwan Air Cargo Terminal                   | a                                   | Other operating revenue               | 3,578     | The same as ordinary transactions | 0.01  |
|   |                      | Mandarin Airlines                           | a                                   | Other operating revenue               | 103,459   | The same as ordinary transactions | 0.30  |
|   |                      | Taoyuan International Airport Services      | a                                   | Other operating revenue               | 1,120     | The same as ordinary transactions | -   |
|   |                      | Sabre Travel Network (Taiwan)               | a                                   | Other operating revenue               | 1,784     | The same as ordinary transactions | 0.01  |
|   |                      | Taiwan Airport Services                     | a                                   | Other operating revenue               | 2,869     | The same as ordinary transactions | 0.01  |
|   |                      | Hwa Hsia                                    | a                                   | Other operating revenue               | 2,338     | The same as ordinary transactions | 0.01  |
|   |                      | Dynasty Holidays                            | a                                   | Other operating revenue               | 550       | The same as ordinary transactions | -   |
|   |                      | Global Sky Express                          | a                                   | Other operating revenue               | 628       | The same as ordinary transactions | -   |
|   |                      | Yestrip                                     | a                                   | Other operating revenue               | 1,146     | The same as ordinary transactions | -   |
|   |                      | Cal Hotel                                   | a                                   | Other operating revenue               | 1,445     | The same as ordinary transactions | -   |
|   |                      | Tigerair Taiwan                             | a                                   | Other operating revenue               | 58,994    | The same as ordinary transactions | 0.17  |
|   |                      | Taiwan Aircraft Maintenance and Engineering | a                                   | Other operating revenue               | 3,389     | The same as ordinary transactions | 0.01  |
|   |                      | Taoyuan International Airport Services      | a                                   | Terminal and landing fees             | 275,184   | The same as ordinary transactions | 0.79  |
|   |                      | Taiwan Airport Services                     | a                                   | Terminal and landing fees             | 97,493    | The same as ordinary transactions | 0.28  |
|   |                      | Hwa Hsia                                    | a                                   | Terminal and landing fees             | 56,588    | The same as ordinary transactions | 0.16  |
|   |                      | Mandarin Airlines                           | a                                   | Passenger costs                       | 21,568    | The same as ordinary transactions | 0.06  |
|   |                      | Taiwan Air Cargo Terminal                   | a                                   | Other operating cost                  | 85,280    | The same as ordinary transactions | 0.24  |
|   |                      | Cal-Dynasty International                   | a                                   | Other operating cost                  | 15,408    | The same as ordinary transactions | 0.04  |
|   |                      | Yestrip                                     | a                                   | Other operating cost                  | 1,434     | The same as ordinary transactions | -   |
|   |                      | Cal park                                    | a                                   | Other operating cost                  | 54,302    | The same as ordinary transactions | 0.16  |
|   |                      | Cal Hotel                                   | a                                   | Other operating cost                  | 43,287    | The same as ordinary transactions | 0.12  |
|   |                      | Sabre Travel Network (Taiwan)               | a                                   | Operating expense                     | 1,784     | The same as ordinary transactions | 0.01  |
|   |                      | Taiwan Air Cargo Terminal                   | a                                   | Accounts receivable - related parties | 1,292     | The same as ordinary transactions | -   |
|   |                      | Mandarin Airlines                           | a                                   | Accounts receivable - related parties | 606,247   | The same as ordinary transactions | 0.28  |
|   |                      | Sabre Travel Network (Taiwan)               | a                                   | Accounts receivable - related parties | 590       | The same as ordinary transactions | -   |
|   |                      | Global Sky Express                          | a                                   | Accounts receivable - related parties | 4,073     | The same as ordinary transactions | -   |
|   |                      | Yestrip                                     | a                                   | Accounts receivable - related parties | 15,913    | The same as ordinary transactions | 0.01  |
|   |                      | Cal Hotel                                   | a                                   | Accounts receivable - related parties | 474       | The same as ordinary transactions | -   |
|   |                      | Tigerair Taiwan                             | a                                   | Accounts receivable - related parties | 51,089    | The same as ordinary transactions | 0.02  |
|   |                      | Taiwan Airport Services                     | a                                   | Accounts receivable - related parties | 1,054     | The same as ordinary transactions | -   |
| Taiwan Aircraft Maintenance and Engineering | a                    | Accounts receivable - related parties       | 1,046                               | The same as ordinary transactions     | -         |                                   |   |
| Yestrip                                     | a                    | Dividends receivable                        | 3,991                               | The same as ordinary transactions     | -         |                                   |   |
| Taiwan Air Cargo Terminal                   | a                    | Accounts payable - related parties          | 32,403                              | The same as ordinary transactions     | 0.01      |                                   |   |

(Continued)

| No. | Company Name                           | Related Party                          | Natural of Relationship<br>(Note 1) | Intercompany Transactions                    |            |                                   |   |
|-----|--|--|-------------------------------------|--|------------|-----------------------------------|---|
|     |  |  |                                     | Accounts                                     | Amount     | Transaction Criteria              | % to Total Consolidated Total Revenue or Assets |
|     |  | Mandarin Airlines                      | a                                   | Accounts payable - related parties           | \$ 217,926 | The same as ordinary transactions | 0.10  |
|     |  | Taoyuan International Airport Services | a                                   | Accounts payable - related parties           | 335,764    | The same as ordinary transactions | 0.15  |
|     |  | Sabre Travel Network (Taiwan)          | a                                   | Accounts payable - related parties           | 502        | The same as ordinary transactions | -   |
|     |  | Taiwan Airport Services                | a                                   | Accounts payable - related parties           | 66,780     | The same as ordinary transactions | 0.03  |
|     |  | Hwa Hsia                               | a                                   | Accounts payable - related parties           | 53,731     | The same as ordinary transactions | 0.02  |
|     |  | Yestrip                                | a                                   | Accounts payable - related parties           | 2,068      | The same as ordinary transactions | -   |
|     |  | Cal Hotel                              | a                                   | Accounts payable - related parties           | 16,983     | The same as ordinary transactions | 0.01  |
|     |  | Cal park                               | a                                   | Accounts payable - related parties           | 54,302     | The same as ordinary transactions | 0.02  |
| 1   | Taiwan Air Cargo Terminal              | China Airlines, Ltd.                   | b                                   | Sales revenue                                | 85,280     | The same as ordinary transactions | 0.24  |
|     |  | Mandarin Airlines                      | c                                   | Sales revenue                                | 2,038      | The same as ordinary transactions | 0.01  |
|     |  | Taoyuan International Airport Services | c                                   | Operating costs                              | 738        | The same as ordinary transactions | -   |
|     |  | China Airlines, Ltd.                   | b                                   | Operating costs                              | 3,578      | The same as ordinary transactions | 0.01  |
|     |  | Hwa Hsia                               | c                                   | Operating costs                              | 2,121      | The same as ordinary transactions | 0.01  |
|     |  | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties        | 32,403     | The same as ordinary transactions | 0.01  |
|     |  | Mandarin Airlines                      | c                                   | Accounts receivable - related parties        | 1,079      | The same as ordinary transactions | -   |
|     |  | Hwa Hsia                               | c                                   | Accounts payable - related parties           | 1,117      | The same as ordinary transactions | -   |
|     |  | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties           | 1,292      | The same as ordinary transactions | -   |
| 2   | Mandarin Airlines                      | China Airlines, Ltd.                   | b                                   | Passenger revenue                            | 21,568     | The same as ordinary transactions | 0.06  |
|     |  | China Airlines, Ltd.                   | b                                   | Passenger costs                              | 633,867    | The same as ordinary transactions | 1.81  |
|     |  | Taiwan Airport Services                | c                                   | Terminal and landing fees                    | 23,958     | The same as ordinary transactions | 0.07  |
|     |  | Taoyuan International Airport Services | c                                   | Terminal and landing fees                    | 10,221     | The same as ordinary transactions | 0.03  |
|     |  | Taiwan Air Cargo Terminal              | c                                   | Terminal and landing fees                    | 2,038      | The same as ordinary transactions | 0.01  |
|     |  | China Airlines, Ltd.                   | b                                   | Operating expense                            | 103,459    | The same as ordinary transactions | 0.30  |
|     |  | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties        | 217,926    | The same as ordinary transactions | 0.10  |
|     |  | China Airlines, Ltd.                   | b                                   | Notes and accounts payable - related parties | 606,247    | The same as ordinary transactions | 0.28  |
|     |  | Taiwan Airport Services                | c                                   | Notes and accounts payable - related parties | 14,302     | The same as ordinary transactions | 0.01  |
|     |  | Taiwan Air Cargo Terminal              | c                                   | Notes and accounts payable - related parties | 1,079      | The same as ordinary transactions | -   |
|     |  | Taoyuan International Airport Services | c                                   | Accounts payable - related parties           | 3,931      | The same as ordinary transactions | -   |
| 3   | Taoyuan International Airport Services | Mandarin Airlines                      | c                                   | Airport service revenue                      | 10,221     | The same as ordinary transactions | 0.03  |
|     |  | Taiwan Air Cargo Terminal              | c                                   | Airport service revenue                      | 738        | The same as ordinary transactions | -   |
|     |  | Tigerair Taiwan                        | c                                   | Airport service revenue                      | 8,820      | The same as ordinary transactions | 0.03  |
|     |  | China Airlines, Ltd.                   | b                                   | Airport service revenue                      | 275,184    | The same as ordinary transactions | 0.79  |
|     |  | China Airlines, Ltd.                   | b                                   | Operating expense                            | 1,120      | The same as ordinary transactions | -   |
|     |  | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties        | 335,764    | The same as ordinary transactions | 0.15  |
|     |  | Mandarin Airlines                      | c                                   | Accounts receivable - related parties        | 3,931      | The same as ordinary transactions | -   |
| 4   | Cal-Dynasty International              | China Airlines, Ltd.                   | b                                   | Operating revenue                            | 15,408     | The same as ordinary transactions | 0.04  |
| 5   | Sabre Travel Network (Taiwan)          | China Airlines, Ltd.                   | b                                   | Service revenue                              | 1,784      | The same as ordinary transactions | 0.01  |
|     |  | China Airlines, Ltd.                   | b                                   | Operating expense                            | 1,784      | The same as ordinary transactions | 0.01  |
|     |  | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties        | 502        | The same as ordinary transactions | -   |
|     |  | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties           | 590        | The same as ordinary transactions | -   |

(Continued)

| No. | Company Name                                | Related Party                          | Natural of Relationship<br>(Note 1) | Intercompany Transactions             |           |                                   |   |
|-----|---|--|-------------------------------------|---------------------------------------|-----------|-----------------------------------|---|
|     |   |  |                                     | Accounts                              | Amount    | Transaction Criteria              | % to Total Consolidated Total Revenue or Assets |
| 6   | Taiwan Airport Services                     | China Airlines, Ltd.                   | b                                   | Operating revenue                     | \$ 97,493 | The same as ordinary transactions | 0.28  |
|     |   | Mandarin Airlines                      | c                                   | Operating revenue                     | 23,958    | The same as ordinary transactions | 0.07  |
|     |   | China Airlines, Ltd.                   | b                                   | Operating expense                     | 2,869     | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties | 66,780    | The same as ordinary transactions | 0.03  |
|     |   | Mandarin Airlines                      | c                                   | Accounts receivable - related parties | 14,302    | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties    | 1,054     | The same as ordinary transactions | -   |
| 7   | Hwa Hsia                                    | China Airlines, Ltd.                   | b                                   | Operating revenue                     | 56,588    | The same as ordinary transactions | 0.16  |
|     |   | Taiwan Air Cargo Terminal              | c                                   | Operating revenue                     | 2,121     | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Operating expense                     | 2,338     | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties | 53,731    | The same as ordinary transactions | 0.02  |
|     |   | Taiwan Air Cargo Terminal              | c                                   | Accounts receivable - related parties | 1,117     | The same as ordinary transactions | -   |
| 8   | Dynasty Holidays                            | China Airlines, Ltd.                   | b                                   | Operating expense                     | 550       | The same as ordinary transactions | -   |
| 9   | Global Sky Express                          | China Airlines, Ltd.                   | b                                   | Operating costs                       | 21,379    | The same as ordinary transactions | 0.06  |
|     |   | China Airlines, Ltd.                   | b                                   | Operating expense                     | 628       | The same as ordinary transactions | -   |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties    | 4,073     | The same as ordinary transactions | -   |
| 10  | Yestrip                                     | China Airlines, Ltd.                   | b                                   | Operating revenue                     | 1,434     | The same as ordinary transactions | -   |
|     |   | China Airlines, Ltd.                   | b                                   | Operating expense                     | 1,146     | The same as ordinary transactions | -   |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties | 2,068     | The same as ordinary transactions | -   |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties    | 15,913    | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Dividends payable                     | 3,991     | The same as ordinary transactions | -   |
| 11  | Cal park                                    | China Airlines, Ltd.                   | b                                   | Operating revenue                     | 54,302    | The same as ordinary transactions | 0.16  |
|     |   | Cal Hotel                              | c                                   | Operating revenue                     | 20,564    | The same as ordinary transactions | 0.06  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties | 54,302    | The same as ordinary transactions | 0.02  |
| 12  | Cal Hotel                                   | China Airlines, Ltd.                   | b                                   | Operating revenue                     | 43,287    | The same as ordinary transactions | 0.12  |
|     |   | China Airlines, Ltd.                   | b                                   | Operating expense                     | 1,445     | The same as ordinary transactions | -   |
|     |   | Cal park                               | c                                   | Operating costs                       | 20,564    | The same as ordinary transactions | 0.06  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts receivable - related parties | 16,983    | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties    | 474       | The same as ordinary transactions | -   |
| 13  | Tigerair Taiwan                             | China Airlines, Ltd.                   | b                                   | Operating expense                     | 58,994    | The same as ordinary transactions | 0.17  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties    | 51,089    | The same as ordinary transactions | 0.02  |
|     |   | Taoyuan International Airport Services | c                                   | Terminal and landing fees             | 8,820     | The same as ordinary transactions | 0.03  |
| 14  | Taiwan Aircraft Maintenance and Engineering | China Airlines, Ltd.                   | b                                   | Operating expense                     | 3,389     | The same as ordinary transactions | 0.01  |
|     |   | China Airlines, Ltd.                   | b                                   | Accounts payable - related parties    | 1,046     | The same as ordinary transactions | -   |

(Continued)

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 consolidated financial report.

(Concluded)