

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2016 and 2015 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of China Airlines, Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended June 30, 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 June 30, 2016 and 2015, total combined assets of these non-significant subsidiaries were NT\$14,998,501 thousand and NT\$15,312,565 thousand, respectively, representing 6.85% and 6.72%, respectively, of the total consolidated assets, and total combined liabilities of these subsidiaries were NT\$6,741,301 thousand and NT\$6,933,817 thousand, respectively, representing 4.22% and 4.08%, respectively, of the total consolidated liabilities; for the three months and six months ended June 30, 2016 and 2015, combined comprehensive income of these subsidiaries were NT\$255,915 thousand, NT\$203,215 thousand, NT\$453,557 thousand and NT\$351,731 thousand, respectively, representing (659.18%), 10.06%, 32.36% and 7.91%, respectively, of the consolidated total comprehensive income. As of June 30, 2016 and 2015, investments accounted for by the equity method were NT\$2,925,267 thousand and NT\$2,612,667 thousand, respectively; for the three months and six months ended June 30, 2016 and 2015, share of the profit of associates and joint ventures were NT\$135,077 thousand, NT\$132,569 thousand and NT\$258,687 thousand and NT\$248,885 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.

August 11, 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’ review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors’ report and consolidated financial statements shall prevail.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2016 (Reviewed)		December 31, 2015 (Audited)		June 30, 2015 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6 and 19)	\$ 24,959,550	11	\$ 23,491,085	11	\$ 24,783,309	11
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	1,055,613	1	542,326	-	154,710	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)	24,913	-	52,582	-	81,568	-
Receivables:						
Notes and accounts, net (Notes 4, 5 and 11)	7,508,793	3	7,610,677	3	8,311,427	4
Notes and accounts - related parties (Note 33)	4,217	-	3,874	-	4,762	-
Other receivables	1,129,007	1	1,032,622	1	1,151,386	1
Current tax assets (Notes 4 and 29)	20,156	-	9,849	-	9,068	-
Inventories, net (Notes 4 and 12)	8,243,016	4	8,300,398	4	7,591,261	3
Noncurrent assets held for sale (Notes 4, 5 and 13)	259,740	-	670,455	-	-	-
Other assets - current (Notes 6 and 19)	4,422,176	2	3,928,747	2	2,902,779	1
Total current assets	47,627,181	22	45,642,615	21	44,990,270	20
NONCURRENT ASSETS						
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	-	-	1,710	-	-	-
Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 32)	14,623	-	19,080	-	19,481	-
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)	219,920	-	223,911	-	467,450	-
Investments accounted for by the equity method (Notes 4 and 15)	2,925,267	1	2,877,777	1	2,612,667	1
Property, plant and equipment (Notes 4, 5, 16 and 34)	125,418,264	57	129,628,866	58	135,990,333	60
Investment properties (Notes 4 and 17)	2,076,042	1	2,076,182	1	2,076,321	1
Other intangible assets (Notes 4 and 18)	1,104,369	1	1,009,678	1	858,315	-
Deferred income tax asset (Notes 4, 5 and 29)	6,840,681	3	7,188,415	3	7,616,394	3
Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)	32,585,664	15	33,246,859	15	33,194,996	15
Total noncurrent assets	171,184,830	78	176,283,694	79	182,835,957	80
TOTAL	\$ 218,812,011	100	\$ 221,926,309	100	\$ 227,826,227	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 20)	\$ 118,226	-	\$ 173,289	-	\$ 1,900,185	1
Short-term bills payable (Note 20)	-	-	9,995	-	899,876	1
Financial liability at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	3,863	-	-	-	33,329	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)	244,210	-	313,689	-	739,281	1
Notes and accounts payable	829,505	-	1,229,575	1	671,347	-
Notes and accounts payable - related parties (Note 33)	492,969	-	493,754	-	478,627	-
Other payable (Note 23)	11,154,917	5	12,296,548	5	11,788,702	5
Current tax liabilities (Notes 4 and 29)	97,284	-	75,645	-	78,470	-
Provisions - current (Notes 4, 5 and 25)	32,403	-	20,186	-	13,877	-
Deferred revenue - current (Notes 4, 5 and 24)	14,181,844	7	13,112,086	6	12,074,230	5
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32)	5,267,339	2	4,944,106	2	2,400,000	1
Loans and debts - current portion (Notes 20, 32 and 34)	32,546,417	15	30,092,112	14	20,497,599	9
Capital lease obligations - current portion (Notes 4, 22, 32 and 34)	1,457,957	1	1,457,957	1	2,508,433	1
Other current liabilities (Note 27)	6,290,581	3	4,001,510	2	4,448,865	2
Total current liabilities	72,717,515	33	68,220,452	31	58,532,821	26
NONCURRENT LIABILITIES						
Financial liability at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	-	-	-	-	1,828	-
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)	-	-	11,291	-	6,995	-
Bonds payable - noncurrent (Notes 4, 21, 27 and 32)	12,900,000	6	10,900,000	5	13,430,223	6
Loans and debts - noncurrent (Notes 20, 32 and 34)	50,459,840	23	57,691,505	26	73,963,427	33
Provisions - noncurrent (Notes 4, 5 and 25)	6,654,329	3	6,167,295	3	5,128,983	2
Deferred tax liabilities (Notes 4 and 29)	322,310	-	340,681	-	381,162	-
Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)	4,464,572	2	5,197,147	2	6,279,780	3
Deferred revenue - noncurrent (Notes 4, 5 and 24)	1,795,075	1	1,863,929	1	1,826,220	1
Accrued pension costs (Notes 4, 5 and 26)	9,823,624	5	10,553,574	5	10,056,136	4
Other noncurrent liabilities	436,909	-	423,892	-	419,553	-
Total noncurrent liabilities	86,856,659	40	93,149,314	42	111,494,307	49
Total liabilities	159,574,174	73	161,369,766	73	170,027,128	75
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)						
Capital stock	54,708,901	25	54,708,901	25	54,700,732	24
Capital surplus	798,415	-	798,415	-	797,100	-
Retained earnings:						
Legal reserve	287,224	-	-	-	-	-
Special reserve	76,486	-	-	-	-	-
Unappropriated retained earnings	1,289,165	1	2,872,235	1	608,173	-
Total retained earnings	1,652,875	1	2,872,235	1	608,173	-
Other equity	(73,736)	-	(66,283)	-	(504,175)	-
Treasury shares	(43,372)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	57,043,083	26	58,269,896	26	55,558,458	24
NON-CONTROLLING INTERESTS (Note 27)	2,194,754	1	2,286,647	1	2,240,641	1
Total equity	59,237,837	27	60,556,543	27	57,799,099	25
TOTAL	\$ 218,812,011	100	\$ 221,926,309	100	\$ 227,826,227	100

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

(With Deloitte & Touche review report dated August 11, 2016)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUES (Notes 4, 28 and 33)	\$ 33,834,966	100	\$ 35,621,247	100	\$ 68,833,989	100	\$ 72,785,152	100
COSTS (Notes 9, 12, 25, 26, 28 and 33)	<u>29,955,893</u>	<u>88</u>	<u>31,056,441</u>	<u>87</u>	<u>59,206,151</u>	<u>86</u>	<u>62,503,770</u>	<u>86</u>
GROSS PROFIT	3,879,073	12	4,564,806	13	9,627,838	14	10,281,382	14
OPERATING EXPENSES (Notes 26 and 28)	<u>3,258,165</u>	<u>10</u>	<u>2,958,121</u>	<u>9</u>	<u>6,635,716</u>	<u>9</u>	<u>6,114,483</u>	<u>8</u>
OPERATING PROFIT	<u>620,908</u>	<u>2</u>	<u>1,606,685</u>	<u>4</u>	<u>2,992,122</u>	<u>5</u>	<u>4,166,899</u>	<u>6</u>
NONOPERATING INCOME AND EXPENSES								
Other income (Note 28)	245,606	1	454,087	1	401,650	1	717,411	1
Other gains and losses (Notes 9, 13, 28 and 36)	(685,163)	(2)	(284,296)	(1)	(1,124,403)	(2)	(422,944)	(1)
Finance cost (Notes 9 and 28)	(329,371)	(1)	(463,501)	(1)	(674,637)	(1)	(948,355)	(1)
Share of the profit of associates and joint ventures (Note 15)	<u>135,077</u>	<u>-</u>	<u>132,569</u>	<u>1</u>	<u>258,687</u>	<u>-</u>	<u>248,885</u>	<u>-</u>
Total nonoperating income and expenses	<u>(633,851)</u>	<u>(2)</u>	<u>(161,141)</u>	<u>-</u>	<u>(1,138,703)</u>	<u>(2)</u>	<u>(405,003)</u>	<u>(1)</u>
PROFIT (LOSS) BEFORE INCOME TAX	(12,943)	-	1,445,544	4	1,853,419	3	3,761,896	5
INCOME TAX EXPENSE (Notes 4, 5 and 29)	<u>82,334</u>	<u>-</u>	<u>277,233</u>	<u>1</u>	<u>441,231</u>	<u>1</u>	<u>711,381</u>	<u>1</u>
NET INCOME (LOSS)	<u>(95,277)</u>	<u>-</u>	<u>1,168,311</u>	<u>3</u>	<u>1,412,188</u>	<u>2</u>	<u>3,050,515</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations (Notes 4 and 27)	(7,984)	-	(28,877)	-	(58,357)	-	(51,810)	-
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 27)	(6,330)	-	(6,682)	-	(8,297)	-	(9,400)	-
Cash flow hedges (Notes 4 and 27)	83,882	-	1,063,599	3	58,816	-	1,743,782	2
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 27)	987	-	-	-	-	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	<u>(14,101)</u>	<u>-</u>	<u>(176,423)</u>	<u>-</u>	<u>(2,910)</u>	<u>-</u>	<u>(288,641)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>56,454</u>	<u>-</u>	<u>851,617</u>	<u>3</u>	<u>(10,748)</u>	<u>-</u>	<u>1,393,931</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ (38,823)</u>	<u>-</u>	<u>\$ 2,019,928</u>	<u>6</u>	<u>\$ 1,401,440</u>	<u>2</u>	<u>\$ 4,444,446</u>	<u>6</u>

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
NET INCOME (LOSS)								
ATTRIBUTABLE TO:								
Owner of the Company	\$ (169,612)	-	\$ 1,116,577	3	\$ 1,294,339	2	\$ 2,966,956	4
Non-controlling interests	<u>74,335</u>	<u>-</u>	<u>51,734</u>	<u>-</u>	<u>117,849</u>	<u>-</u>	<u>83,559</u>	<u>-</u>
	<u>\$ (95,277)</u>	<u>-</u>	<u>\$ 1,168,311</u>	<u>3</u>	<u>\$ 1,412,188</u>	<u>2</u>	<u>\$ 3,050,515</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME (LOSS)								
ATTRIBUTABLE TO:								
Owner of the Company	\$ (112,794)	-	\$ 1,973,018	6	\$ 1,286,886	2	\$ 4,368,479	6
Non-controlling interests	<u>73,971</u>	<u>-</u>	<u>46,910</u>	<u>-</u>	<u>114,554</u>	<u>-</u>	<u>75,967</u>	<u>-</u>
	<u>\$ (38,823)</u>	<u>-</u>	<u>\$ 2,019,928</u>	<u>6</u>	<u>\$ 1,401,440</u>	<u>2</u>	<u>\$ 4,444,446</u>	<u>6</u>
EARNING (LOSS) PER SHARE (NEW TAIWAN DOLLARS; Note 30)								
Basic	<u>\$ (0.03)</u>		<u>\$ 0.20</u>		<u>\$ 0.24</u>		<u>\$ 0.55</u>	
Diluted	<u>\$ (0.03)</u>		<u>\$ 0.20</u>		<u>\$ 0.23</u>		<u>\$ 0.53</u>	

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

(With Deloitte & Touche review report dated August 11, 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											
	Share Capital	Capital Surplus	Retained Earnings		Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale	Cash Flow	Treasury Shares	Total	Non-controlling	Total Equity
			Legal Reserve	Special Reserve								
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	2,209,066	316,638	-	-	-	-	-	-	-	2,525,704	-	2,525,704
Compensation of deficit - capital surplus for 2014	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-	-	-
Net income for the six months ended June 30, 2015	-	-	-	-	2,966,956	-	-	-	-	2,966,956	83,559	3,050,515
Other comprehensive income (loss) for the six months ended June 30, 2015, net of income tax	-	-	-	-	-	(41,365)	(4,451)	1,447,339	-	1,401,523	(7,592)	1,393,931
Total comprehensive income (loss) for the six months ended June 30, 2015	-	-	-	-	2,966,956	(41,365)	(4,451)	1,447,339	-	4,368,479	75,967	4,444,446
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(157,063)	(157,063)
BALANCE AT JUNE 30, 2015	<u>\$ 54,700,732</u>	<u>\$ 797,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 608,173</u>	<u>\$ 58,487</u>	<u>\$ (436)</u>	<u>\$ (562,226)</u>	<u>\$ (43,372)</u>	<u>\$ 55,558,458</u>	<u>\$ 2,240,641</u>	<u>\$ 57,799,099</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)
Appropriation of 2015 earnings												
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-	-	-
Cash dividends - \$0.458522382	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)	-	(2,508,525)
Net income for the six months ended June 30, 2016	-	-	-	-	1,294,339	-	-	-	-	1,294,339	117,849	1,412,188
Other comprehensive loss for the six months ended June 30, 2016, net of income tax	-	-	-	-	-	(49,978)	(2,105)	44,630	-	(7,453)	(3,295)	(10,748)
Total comprehensive income (loss) for the six months ended June 30, 2016	-	-	-	-	1,294,339	(49,978)	(2,105)	44,630	-	1,286,886	114,554	1,401,440
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(201,899)	(201,899)
BALANCE AT JUNE 30, 2016	<u>\$ 54,708,901</u>	<u>\$ 798,415</u>	<u>\$ 287,224</u>	<u>\$ 76,486</u>	<u>\$ 1,289,165</u>	<u>\$ 107,981</u>	<u>\$ (350)</u>	<u>\$ (181,367)</u>	<u>\$ (43,372)</u>	<u>\$ 57,043,083</u>	<u>\$ 2,194,754</u>	<u>\$ 59,237,837</u>

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

(With Deloitte & Touche review report dated August 11, 2016)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended	
	June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,853,419	\$ 3,761,896
Adjustments to reconcile to net cash generated from (used in)		
operating activities:		
Depreciation expenses	8,612,943	8,815,722
Amortization expenses	48,008	31,370
Bad-debt expense	12,388	20,579
Net loss on fair value change of financial assets and liabilities held		
for trading	19,043	48,384
Interest income	(144,223)	(224,619)
Dividend income	(5,745)	(223,050)
Share of profit of associates and joint ventures	(258,687)	(248,885)
Gain on disposal of property, plant and equipment	(9,284)	(3,441)
Loss on disposal of noncurrent assets held for sale	26,429	-
Loss on disposal of available-for-sale financial assets	12	-
Loss on inventory, property, plant and equipment	241,825	160,434
Net (gain) loss on foreign currency exchange	96,843	(69,532)
Finance costs	674,637	948,355
Recognition of provisions	1,274,785	932,826
Amortization of unrealized gain on sale-leaseback	(7,256)	(7,256)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets and liabilities held for trading	(528,513)	67,877
Decrease in derivatives financial assets for hedging	13,096	-
(Increase) decrease in notes and accounts receivable	(206,663)	835,849
Decrease in accounts receivable - related parties	53,732	22,406
Decrease in other receivables	66,901	36,335
Increase in inventories	(37,791)	(465,113)
Increase in other current assets	(881,491)	(247,439)
(Decrease) increase in notes and accounts payable	(356,128)	300,615
Increase in accounts payable - related parties	96,756	185,679
(Decrease) increase in other payables	(652,666)	894,708
Increase in deferred revenue	1,014,648	932,018
Decrease in provisions	(765,172)	(71,823)
Decrease in other current liabilities	(284,514)	(172,380)
Decrease in accrued pension liabilities	(742,482)	(145,005)
Decrease in other liabilities	(3,593)	(57,737)
Cash generated from operations	9,221,257	16,058,773
Interest received	149,234	218,525
Dividend received	5,745	286,842
Interest paid	(723,176)	(1,167,770)
Income tax paid	(100,998)	(125,876)
Net cash generated from operating activities	<u>8,552,062</u>	<u>15,270,494</u>

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on derivative financial assets for hedging	\$ -	\$ (13,096)
Payment for property, plant and equipment	(4,335,611)	(1,868,779)
Proceeds from disposal of property, plant and equipment	14,460	5,753
Proceeds from disposal of available-for-sale financial assets	63	-
Proceeds from disposal of noncurrent assets held for sale	384,285	-
Increase in refundable deposits	(149,784)	(580,200)
Decrease in refundable deposits	83,961	475,316
Increase in prepayment for equipment	(4,896,105)	(7,476,675)
Increase in computer software cost	(142,478)	(218,700)
Decrease (increase) in restricted assets	330,224	(149,408)
Refund in prepayment for aircraft	<u>5,126,799</u>	<u>5,209,610</u>
Net cash used in investing activities	<u>(3,584,186)</u>	<u>(4,616,179)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	40,000	11,270,025
Decrease in short-term loans	(95,000)	(13,820,000)
Decrease in short-term bills payable	(9,995)	(1,098,262)
Proceeds from issue of bonds payable	4,700,000	-
Repayments of bonds payable	(2,400,000)	(8,585,000)
Proceeds of long-term debts and capital lease obligations	10,400,000	14,722,951
Repayments of long-term debts and capital lease obligations	(15,865,889)	(8,586,225)
Proceeds of guarantee deposits received	57,115	70,873
Refund of guarantee deposits received	(34,770)	(79,567)
Proceeds from acquisition of subsidiaries' shares	(8,084)	-
Cash dividends paid to non-controlling interests	<u>(201,899)</u>	<u>(157,063)</u>
Net cash used in financing activities	<u>(3,418,522)</u>	<u>(6,262,268)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(80,889)</u>	<u>(76,889)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,468,465	4,315,158
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>23,491,085</u>	<u>20,468,151</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 24,959,550</u>	<u>\$ 24,783,309</u>

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

(With Deloitte & Touche review report dated August 11, 2016)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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 June 30, 2016, December 31, 2015 and June 30, 2015, CADF and NDF held 43.63%, 43.63% and 43.64% of the Company’s shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on August 11, 2016.

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

- a. International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC

Rule No. 1050026834 issued by the FSC endorsed the following IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) for application starting January 1, 2017.

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

(Continued)

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

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

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

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

Except for the following, the initial application of the above New or amended IFRSs in 2017 would not have any material impact on the Group’s accounting policies:

- Amendment to IAS36 “Impairment of assets”

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 Financial Instruments	January 1, 2018

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

(Concluded)

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

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

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

The impairment of financial assets

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

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

Hedge accounting

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

2) IFRS 16 “Leases”

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the 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.

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

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

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

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

Statement of Compliance

The interim 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 those interim consolidated financial reports is less than disclosure information required in a complete set of annual financial statements.

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 referred to 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 equivalent to the consolidated financial statements of 2015.

6. CASH AND CASH EQUIVALENTS

	June 30, 2016	December 31, 2015	June 30, 2015
Cash on hand and revolving fund	\$ 392,493	\$ 478,223	\$ 596,086
Checking accounts and demand deposits	9,859,693	6,070,236	11,732,958
Cash equivalent			
Time deposits with original maturities less than three months	10,427,044	16,163,452	11,303,663
Repurchase agreements collateralized by bonds	<u>4,280,320</u>	<u>779,174</u>	<u>1,150,602</u>
	<u>\$ 24,959,550</u>	<u>\$ 23,491,085</u>	<u>\$ 24,783,309</u>

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

	June 30, 2016	December 31, 2015	June 30, 2015
Bank balance	0%-2%	0%-1.5%	0%-2%
Time deposits with original maturities less than three months	0.5%-2.45%	0.27%-7.25%	0.37%-4.25%
Repurchase agreements collateralized by bonds	0.35%-1.1%	0.42%-0.51%	0.52%-0.54%

The amount of time deposits with original maturities more than three months for June 30, 2016, December 31, 2015 and June 30, 2015 were \$1,649,640 thousand, \$1,653,927 thousand and \$846,646 thousand, respectively, and the market rate intervals were 0.1%-1.07%, 0.295%-4.1% and 0.3%-4.1%, which were recognized as other current assets. (Refer to Note 19).

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

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Financial assets held for trading - current</u>			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	\$ 9,009	\$ 63,818	\$ 16,735
Non-derivative financial assets			
Beneficial certificates	<u>1,046,604</u>	<u>478,508</u>	<u>137,975</u>
	<u>\$ 1,055,613</u>	<u>\$ 542,326</u>	<u>\$ 154,710</u>
<u>Financial assets held for trading - noncurrent</u>			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 1,710</u>	<u>\$ -</u>
<u>Financial liabilities held for trading</u>			
Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts			
Current	<u>\$ 3,863</u>	<u>\$ -</u>	<u>\$ 33,329</u>
Noncurrent	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,828</u>

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>June 30, 2016</u>			
Buy forward contracts	NTD/USD	2016.7.1-2017.1.26	NTD812,903/USD25,200
<u>December 31, 2015</u>			
Buy forward contracts	NTD/USD	2016.1.8-2017.1.26	NTD3,276,316/USD99,600
<u>June 30, 2015</u>			
Buy forward contracts	NTD/USD	2015.7.1-2017.1.26	NTD4,296,296/USD139,200

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>June 30, 2016</u>		<u>December 31, 2015</u>		<u>June 30, 2015</u>	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Non-current</u>						
Domestic market						
TransAsia Airways	\$ 14,623	-	\$ 19,080	-	\$ 19,481	-

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
<u>Derivative financial assets under hedge accounting</u>			
Foreign exchange forward contracts	\$ 24,095	\$ 51,060	\$ 9,940
Currency options	306	12,403	12,582
Fuel options	<u>512</u>	<u>335</u>	<u>59,046</u>
	<u>\$ 24,913</u>	<u>\$ 63,798</u>	<u>\$ 81,568</u>
Current	\$ 24,913	\$ 52,582	\$ 81,568
Non-current	<u>-</u>	<u>11,216</u>	<u>-</u>
	<u>\$ 24,913</u>	<u>\$ 63,798</u>	<u>\$ 81,568</u>
<u>Derivative financial liabilities under hedge accounting</u>			
Interest rate swaps	\$ 10,331	\$ 12,702	\$ 6,995
Foreign exchange forward contracts	139,327	-	-
Currency options	91,600	12,660	1,184
Fuel options	<u>2,952</u>	<u>299,618</u>	<u>738,097</u>
	<u>\$ 244,210</u>	<u>\$ 324,980</u>	<u>\$ 746,276</u>
Current	\$ 244,210	\$ 313,689	\$ 739,281
Non-current	<u>-</u>	<u>11,291</u>	<u>6,995</u>
	<u>\$ 244,210</u>	<u>\$ 324,980</u>	<u>\$ 746,276</u>

The Group determined the fair value of each derivative contract based on price quotes from financial institutions.

Cash Flow Hedge

a. Interest rate swaps

The Group entered into interest rate swap contracts to mitigate the interest rate swap contracts exposure resulted from the outstanding floating rate debts. All interest rate swap contracts exchange as fix interest rate swaps are designated as cash flow hedges. The outstanding interest rate swap contracts at the end of the reporting period were as follows:

Notional Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
<u>June 30, 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
<u>June 30, 2015</u>			
NT\$3,000,000	2016.11.28-2017.6.22	1.01%-1.14%	TAIBOR Rate

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

b. Currency options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>June 30, 2016</u>			
Buy USD call option	JPY/USD	2016.7.12-2016.12.19	JPY2,446,080/USD20,500
Sell USD put option	JPY/USD	2016.7.12-2016.12.19	JPY2,388,484/USD20,500
<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>June 30, 2015</u>			
Buy USD call option	JPY/USD	2015.7.15-2015.11.18	JPY2,006,760/USD16,700
Sell USD put option	JPY/USD	2015.7.15-2015.11.18	JPY1,944,615/USD16,700

c. Fuel options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>June 30, 2016</u>			
Buy fuel call option	USD	2016.7.31-2017.1.31	NTD512
Sell fuel put option	USD	2016.7.31-2017.1.31	NTD2,952
<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>June 30, 2015</u>			
Buy fuel call option	USD	2015.8.31-2016.5.31	NTD59,046
Sell fuel put option	USD	2015.8.31-2016.5.31	NTD738,097

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

d. Foreign exchange forward contracts

The Group entered into foreign exchange forward contracts to minimize the risk of changes in foreign currency 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:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>June 30, 2016</u>			
Buy forward contracts	NTD/USD	2016.7.1-2018.5.22	NTD7,936,835/USD246,027
<u>December 31, 2015</u>			
Buy forward contracts	NTD/USD	2016.1.18-2017.5.23	NTD1,076,882/USD32,920
<u>June 30, 2015</u>			
Buy forward contracts	NTD/USD	2015.7.23-2017.5.23	NTD699,200/USD23,000

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Increase in operating cost	\$ (67,351)	\$ (700,083)	\$ (315,897)	\$ (1,671,471)
Increase in finance cost	(2,633)	(837)	(3,912)	(3,036)
Other foreign exchange gain (loss)	<u>(15,860)</u>	<u>12,444</u>	<u>(16,076)</u>	<u>31,402</u>
	<u>\$ (85,844)</u>	<u>\$ (688,476)</u>	<u>\$ (335,885)</u>	<u>\$ (1,643,105)</u>

10. FINANCIAL ASSETS CARRIED AT COST

	June 30, 2016		December 31, 2015		June 30, 2015	
	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.	72,697	6	75,791	6	74,470	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	21,098	5	21,995	5	21,613	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
	219,447		223,438		466,977	
Unlisted preferred stocks						
Everest Investment Holdings Ltd. (AH)	<u>473</u>	-	<u>473</u>	-	<u>473</u>	-
	<u>\$ 219,920</u>		<u>\$ 223,911</u>		<u>\$ 467,450</u>	
Classified according to financial asset measurement categories						
Available-for-sale financial assets	<u>\$ 219,920</u>		<u>\$ 223,911</u>		<u>\$ 467,450</u>	

The Group and the other airlines in the Asian Region had set up Abacus International Holdings (AH company) which owned Abacus distributions systems company. Due to strategical adjustment AH company disposed of shares of Abacus distribution systems company. The board of AH company resolved and approved to return the gain on disposal to shareholders by cash dividends and share redemption. 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 measured at 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 was unable to be evaluated.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Notes receivable</u>	\$ 535,406	\$ 344,479	\$ 528,273
<u>Accounts receivable</u>			
Accounts receivable	7,095,388	7,376,125	7,870,915
Less: Allowance for impairment loss	<u>(122,001)</u>	<u>(109,927)</u>	<u>(87,761)</u>
	<u>6,973,387</u>	<u>7,266,198</u>	<u>7,783,154</u>
	<u>\$ 7,508,793</u>	<u>\$ 7,610,677</u>	<u>\$ 8,311,427</u>

The average credit period on sales was 7 to 55 days. In determining the recoverability of a accounts receivable, the Group 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, and allowance for impairment loss was based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and the analysis of their current financial position.

Movement in the allowance for impairment loss recognized as notes receivable and accounts receivables was as follow:

	For the Six Months Ended June 30	
	2016	2015
Beginning balance	\$ 109,927	\$ 66,131
Impairment loss recognized on receivables	12,388	20,579
Amounts written off during current period	(594)	(80)
Exchange influence	<u>280</u>	<u>1,131</u>
Ending balance	<u>\$ 122,001</u>	<u>\$ 87,761</u>

12. INVENTORIES

	June 30, 2016	December 31, 2015	June 30, 2015
Aircraft spare parts	\$ 7,530,466	\$ 7,648,352	\$ 6,939,409
Items for in-flight sale	541,296	507,603	489,988
Work in process - maintenance services	168,198	143,489	158,494
Others	<u>3,056</u>	<u>954</u>	<u>3,370</u>
	<u>\$ 8,243,016</u>	<u>\$ 8,300,398</u>	<u>\$ 7,591,261</u>

The operating costs recognized as operating cost for the six months ended June 30, 2016 and 2015 included loss from inventory write-downs of \$104,781 thousand and \$103,812 thousand, respectively.

The operating costs recognized as operating cost for the three months ended June 30, 2016 and 2015 included loss from inventory write-downs of \$5,596 thousand and gain from reversal of \$1,698 thousand, respectively. There was gains from reversal of inventory write-downs because inventory write-downs were no longer applicable.

13. NON-CURRENT ASSETS HELD FOR SALE

	June 30, 2016	December 31, 2015	June 30, 2015
Aircraft held for sale	<u>\$ 259,740</u>	<u>\$ 670,455</u>	<u>\$ _____</u>

To enhance the competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts on timely schedule. On August 13, 2015, the board of directors resolved to sell two 747-400 aircrafts and one A340-300 aircraft. These aircrafts were recognized as noncurrent assets held for sale, and difference between their 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. The A340-300 aircraft was sold in June 2016; difference between its actual price and book value is \$26,429 thousand and was recognized as loss on disposal of noncurrent assets held for sale. The aircrafts above were categorized by level 3 fair value input since their expected sale price were based on the second-hand market prices 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		
			June 30, 2016	December 31, 2015	June 30, 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

(Continued)

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership		
			June 30, 2016	December 31, 2015	June 30, 2015
	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	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

(Concluded)

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 since the Company had control over these investees, they were listed as subsidiaries. Except for Mandarin Airlines and Tigerair Taiwan Co., the financial information of the subsidiaries above six months ended June 30 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

	June 30, 2016	December 31, 2015	June 30, 2015
Investments in associates	\$ 1,957,590	\$ 2,010,774	\$ 1,841,090
Investments in jointly controlled entities	<u>967,677</u>	<u>867,003</u>	<u>771,577</u>
	<u>\$ 2,925,267</u>	<u>\$ 2,877,777</u>	<u>\$ 2,612,667</u>

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

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Unlisted companies</u>			
China Aircraft Services	\$ 510,629	\$ 490,824	\$ 464,510
Kaohsiung Catering Services	228,874	244,903	214,886
Asian Compressor Technology Services	225,401	263,091	210,649
Science Park Logistics	240,071	185,226	175,088

(Continued)

	June 30, 2016	December 31, 2015	June 30, 2015
Airport Air Cargo Terminal (Xiamen)	\$ 481,861	\$ 494,665	\$ 509,904
Airport Air Cargo Service (Xiamen)	229,647	226,066	229,939
Eastern United International Logistics (Holdings) Ltd.	<u>41,107</u>	<u>41,908</u>	<u>36,114</u>
	1,957,590	1,946,683	1,841,090
Prepaid long-term investment - Science Park Logistics	<u>-</u>	<u>64,091</u>	<u>-</u>
	<u>\$ 1,957,590</u>	<u>\$ 2,010,774</u>	<u>\$ 1,841,090</u> (Concluded)

On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common stock for cash and the record date of the stock issuance was December 25, 2015. The board of Group 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	Proportion of Ownership and Voting Rights		
	June 30, 2016	December 31, 2015	June 30, 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 (Holdings) Ltd.	35%	35%	35%

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
China Aircraft Services	\$ 13,139	\$ 11,878	\$ 30,121	\$ 23,359
Kaohsiung Catering Services	21,362	15,568	35,900	26,637
Asian Compressor Technology Services	26,857	18,341	51,107	40,933
Science Park Logistics	4,146	5,345	8,230	6,005
Airport Air Cargo Terminal (Xiamen)	5,014	5,321	5,977	6,954
Airport Air Cargo Service (Xiamen)	8,125	5,589	12,232	9,473
Eastern United International Logistics (Holdings) Ltd.	<u>517</u>	<u>1,966</u>	<u>937</u>	<u>4,219</u>
	<u>\$ 79,160</u>	<u>\$ 64,008</u>	<u>\$ 144,504</u>	<u>\$ 117,580</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 six months ended June 30, 2016 and 2015 had not been independently reviewed.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	June 30, 2016	December 31, 2015	June 30, 2015
China Pacific Catering Services	\$ 809,920	\$ 705,134	\$ 591,338
China Pacific Laundry Services	<u>157,757</u>	<u>161,869</u>	<u>180,239</u>
	<u>\$ 967,677</u>	<u>\$ 867,003</u>	<u>\$ 771,577</u>

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

	Proportion of Ownership and Voting Rights		
	June 30, 2016	December 31, 2015	June 30, 2015
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:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
China Pacific Catering Services	\$ 50,235	\$ 63,143	\$ 104,785	\$ 117,258
China Pacific Laundry Services	<u>5,682</u>	<u>5,418</u>	<u>9,398</u>	<u>14,047</u>
	<u>\$ 55,917</u>	<u>\$ 68,561</u>	<u>\$ 114,183</u>	<u>\$ 131,305</u>

Other comprehensive income of associates accounted for using the equity method in the three months and six months ended June 30, 2016 and 2015 are \$987 thousand, \$0 thousand, \$0 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 were based on the jointly controlled entities' financial statements which had not reviewed.

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

16. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Cost</u>			
Freehold land	\$ 965,174	\$ 976,427	\$ 940,538
Buildings	13,130,261	13,140,158	15,406,099
Flight equipment	231,308,934	229,849,035	237,103,585
Equipment under finance lease	28,700,452	28,087,404	30,642,784
Machinery equipment	10,153,480	9,930,186	9,755,091
Office equipment	1,061,787	1,044,598	1,007,910
Leased assets	124,884	129,372	130,573
Leasehold improvements	3,905,050	3,928,846	1,441,812
Construction in progress	293,406	134,888	122,830
	<u>\$ 289,643,428</u>	<u>\$ 287,220,914</u>	<u>\$ 296,551,222</u>
<u>Accumulated depreciation and impairment</u>			
Buildings	\$ 5,598,377	\$ 5,355,804	\$ 5,077,677
Flight equipment	134,441,894	128,953,990	130,986,561
Equipment under finance lease	14,880,901	14,201,904	15,647,313
Machinery equipment	6,775,453	6,598,390	6,399,077
Office equipment	863,436	839,931	790,681
Leased assets	104,374	113,276	114,666
Leasehold improvements	1,560,729	1,528,753	1,544,914
	<u>\$ 164,225,164</u>	<u>\$ 157,592,048</u>	<u>\$ 160,560,889</u>
Net value	<u>\$ 125,418,264</u>	<u>\$ 129,628,866</u>	<u>\$ 135,990,333</u>

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Lease	Others	Total
<u>Cost</u>						
Balance at January 1, 2015	\$ 953,614	\$ 13,085,921	\$ 232,035,450	\$ 33,985,116	\$ 14,697,246	\$ 294,757,347
Additions	-	9,224	1,510,273	128,598	220,684	1,868,779
Disposals	-	(27,844)	(150,671)	-	(215,765)	(394,280)
Reclassification	-	2,361,124	3,708,533	(3,470,930)	(2,241,866)	356,861
Net exchange difference	(13,076)	(22,326)	-	-	(2,083)	(37,485)
Balance at June 30, 2015	<u>\$ 940,538</u>	<u>\$ 15,406,099</u>	<u>\$ 237,103,585</u>	<u>\$ 30,642,784</u>	<u>\$ 12,458,216</u>	<u>\$ 296,551,222</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2015	\$ -	\$ (4,794,850)	\$ (121,645,204)	\$ (16,998,403)	\$ (8,663,824)	\$ (152,102,281)
Depreciation expense	-	(303,981)	(7,023,412)	(1,084,439)	(403,750)	(8,815,582)
Disposals	-	16,343	103,692	-	213,645	333,680
Reclassification	-	(23)	(2,421,637)	2,435,529	4,506	18,375
Net exchange difference	-	4,834	-	-	85	4,919
Balance at June 30, 2015	<u>\$ -</u>	<u>\$ (5,077,677)</u>	<u>\$ (130,986,561)</u>	<u>\$ (15,647,313)</u>	<u>\$ (8,849,338)</u>	<u>\$ (160,560,889)</u>

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Lease	Others	Total
<u>Cost</u>						
Balance at January 1, 2016	\$ 976,427	\$ 13,140,158	\$ 229,849,035	\$ 28,087,404	\$ 15,167,890	\$ 287,220,914
Additions	-	11,342	3,080,280	695,605	548,384	4,335,611
Disposals	-	(1,811)	(2,154,876)	(345,313)	(158,619)	(2,660,619)
Reclassification	-	-	534,495	262,756	(19,418)	777,833
Net exchange difference	(11,253)	(19,428)	-	-	370	(30,311)
Balance at June 30, 2016	<u>\$ 965,174</u>	<u>\$ 13,130,261</u>	<u>\$ 231,308,934</u>	<u>\$ 28,700,452</u>	<u>\$ 15,538,607</u>	<u>\$ 289,643,428</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ (5,355,804)	\$ (128,953,990)	\$ (14,201,904)	\$ (9,080,349)	\$ (157,592,047)
Depreciation expense	-	(252,875)	(6,959,709)	(1,024,310)	(375,909)	(8,612,803)
Disposals	-	1,811	2,017,605	345,313	156,269	2,520,998
Reclassification	-	-	(545,800)	-	(5,362)	(551,162)
Net exchange difference	-	8,491	-	-	1,360	9,851
Balance at June 30, 2016	<u>\$ -</u>	<u>\$ (5,598,377)</u>	<u>\$ (134,441,894)</u>	<u>\$ (14,880,901)</u>	<u>\$ (9,303,992)</u>	<u>\$ (164,225,164)</u>

(Concluded)

Property, plant and equipment are 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 equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Assets leased to others	3-5 years
Flight equipment 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

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, and movable property are adequately insured to diversify the potential risk related to operation.

17. INVESTMENT PROPERTIES

	June 30, 2016	December 31, 2015	June 30, 2015
Carrying amount			
Investment properties	<u>\$ 2,076,042</u>	<u>\$ 2,076,182</u>	<u>\$ 2,076,321</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 June 30, 2016, December 31, 2015 and June 30, 2015. The above amount were evaluated by taking into account the report of real estate appraiser and the market transaction assessed by the management.

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

	Cost	Accumulated Depreciation	Net Value
Balance on January 1, 2015	\$ 2,082,390	\$ (5,929)	\$ 2,076,461
Additions	<u>-</u>	<u>(140)</u>	<u>(140)</u>
Balance on June 30, 2015	<u>\$ 2,082,390</u>	<u>\$ (6,069)</u>	<u>\$ 2,076,321</u>
Balance on January 1, 2016	\$ 2,082,390	\$ (6,208)	\$ 2,076,182
Additions	<u>-</u>	<u>(140)</u>	<u>(140)</u>
Balance on June 30, 2016	<u>\$ 2,082,390</u>	<u>\$ (6,348)</u>	<u>\$ 2,076,042</u>

18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2015	\$ 1,214,465	\$ (543,468)	\$ 670,997
Additions	218,700	-	218,700
Amortization expense	-	(31,370)	(31,370)
Exchange influence	<u>-</u>	<u>(12)</u>	<u>(12)</u>
Balance at June 30, 2015	<u>\$ 1,433,165</u>	<u>\$ (574,850)</u>	<u>\$ 858,315</u>
Balance at January 1, 2016	\$ 1,623,186	\$ (613,508)	\$ 1,009,678
Additions	142,478	-	142,478
Amortization expense	-	(48,008)	(48,008)
Exchange influence	<u>-</u>	<u>221</u>	<u>221</u>
Balance at June 30, 2016	<u>\$ 1,765,664</u>	<u>\$ (661,295)</u>	<u>\$ 1,104,369</u>

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

19. OTHER ASSETS

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Current</u>			
Other financial assets	\$ 1,649,640	\$ 1,653,927	\$ 846,646
Temporary payments	1,053,678	632,661	979,897
Prepayments	1,260,096	1,146,659	838,217
Restricted assets	61,298	500	43,479
Others	<u>397,464</u>	<u>495,000</u>	<u>194,540</u>
	<u>\$ 4,422,176</u>	<u>\$ 3,928,747</u>	<u>\$ 2,902,779</u>
<u>Noncurrent</u>			
Prepayments for aircraft	\$ 28,427,494	\$ 28,714,476	\$ 29,061,606
Prepayments - long-term	2,516,555	2,522,891	2,180,357
Refundable deposits	1,491,711	1,489,112	1,388,164
Restricted assets	126,040	504,924	540,882
Other financial assets	14,217	14,144	13,985
Others	<u>9,647</u>	<u>1,312</u>	<u>10,002</u>
	<u>\$ 32,585,664</u>	<u>\$ 33,246,859</u>	<u>\$ 33,194,996</u>

The prepayments for aircraft were the prepaid deposit and capitalized interest from the purchase of A350-900 and 777-300ER. For the related instruction of the contract, please refer to Note 35. Six of 777-300 ER and then leased them back. As of May 2016, all the airplanes have been handed over and the Company receive the prepayment for aircraft.

20. BORROWINGS

a. Short-term loans

	June 30, 2016	December 31, 2015	June 30, 2015
Bank loans - unsecured	<u>\$ 118,226</u>	<u>\$ 173,289</u>	<u>\$ 1,900,185</u>
Interest rates	1.54%-2.66%	1.25%-1.8636%	1.18%-1.22%

b. Short-term and bills payable

	June 30, 2016	December 31, 2015	June 30, 2015
Commercial paper	\$ -	\$ 10,000	\$ 900,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>5</u>	<u>124</u>
	<u>\$ -</u>	<u>\$ 9,995</u>	<u>\$ 899,876</u>
Annual discount rate	-	1.3%	1.078%-1.088%

c. Long-term debts

	June 30, 2016	December 31, 2015	June 30, 2015
Unsecured bank loans	\$ 30,137,171	\$ 31,231,342	\$ 34,836,514
Secured bank loans	19,015,935	25,342,804	28,486,709
Commercial paper			
Proceeds from issue	33,900,000	31,275,000	31,230,000
Less: Unamortized discount	<u>46,849</u>	<u>65,529</u>	<u>92,197</u>
	83,006,257	87,783,617	94,461,026
Less: Current portion	<u>32,546,417</u>	<u>30,092,112</u>	<u>20,497,599</u>
	<u>\$ 50,459,840</u>	<u>\$ 57,691,505</u>	<u>\$ 73,963,427</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) are repayable quarterly, semiannually or in lump sum upon maturity. Related information is summarized as follows:

	<u>Currency</u>	
	<u>New Taiwan Dollars</u>	<u>U.S. Dollars</u>
<u>Original currency</u>		
June 30, 2016	\$ 46,921,525	\$ 69,179
December 31, 2015	52,533,784	122,827
June 30, 2015	57,536,929	187,476
<u>Translated in New Taiwan dollars</u>		
June 30, 2016	\$ 46,921,525	\$ 2,231,581
December 31, 2015	52,533,784	4,040,362
June 30, 2015	57,536,929	5,786,294
<u>Interest rates</u>		
June 30, 2016	1.0517%-2.613%	0.2724%-4.39%
December 31, 2015	1.1432%-2.613%	0.4067%-4.39%
June 30, 2015	1.2515%-2.613%	0.2708%-4.39%
<u>Periods</u>		
June 30, 2016	2004.12.16-2029.2.4	2004.7.8-2017.9.21
December 31, 2015	2004.12.16-2029.2.4	2004.6.28-2017.9.21
June 30, 2015	2004.12.16-2029.2.4	2003.7.22-2020.2.26

The Group 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 June 30, 2016, December 31, 2015 and June 30, 2015, the commercial papers were issued at discount rates 1.0917%-1.4917%, 1.2407%-1.5833% and 1.3895%-2.0895%, respectively.

21. BONDS PAYABLE

	June 30, 2016	December 31, 2015	June 30, 2015
Secured corporate bond first-time issued in 2011	\$ -	\$ 2,400,000	\$ 2,400,000
Unsecured corporate bond first-time issued in 2013	10,900,000	10,900,000	10,900,000
Unsecured corporate bond first-time issued in 2016	4,700,000	-	-
Convertible bond issued the fifth time	<u>2,567,339</u>	<u>2,544,106</u>	<u>2,530,223</u>
	18,167,339	15,844,106	15,830,223
Less: Current portion and put option of convertible bounds	<u>5,267,339</u>	<u>4,944,106</u>	<u>2,400,000</u>
	<u>\$ 12,900,000</u>	<u>\$ 10,900,000</u>	<u>\$ 13,430,223</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 unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19
Five-year 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 issued unsecured corporate bond first-time in 2016 of \$5,000,000 thousand, and purchaser of the bond includes Mandarin Airlines Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd. holding face value of \$300,000 thousand which be written off in consolidated financial report.

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 on December 26, 2016, the Company reclassified the bonds payable to “current portion of bonds payable” in December 2015.

- 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%. Due to distribution of cash dividend, the Company made an adjustment to the conversion price. From July 31, 2016, the revised conversion would be \$11.64. As of June 30, 2016, 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

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Minimum lease payments - flight equipment</u>			
Within one year	\$ 1,428,467	\$ 1,428,467	\$ 2,477,933
Beyond one year and within five years	<u>4,364,900</u>	<u>5,079,133</u>	<u>6,143,733</u>
Present value of minimum lease payments	<u>\$ 5,793,367</u>	<u>\$ 6,507,600</u>	<u>\$ 8,621,666</u>
Interest rates	1.1317%-1.63%	1.1828%- 1.5667%	1.43%-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 June 30, 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.

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Minimum lease payments - cargo terminal</u>			
Within one year	\$ 29,809	\$ 37,697	\$ 31,483
Beyond one year and within five years	<u>102,161</u>	<u>117,433</u>	<u>144,345</u>
	131,970	155,130	175,828
Less: Financial cost	<u>(2,808)</u>	<u>(7,626)</u>	<u>(9,281)</u>
Present value of minimum lease payments	<u>\$ 129,162</u>	<u>\$ 147,504</u>	<u>\$ 166,547</u>
<u>Present value of minimum lease payments - cargo terminal</u>			
Within one year	\$ 29,490	\$ 29,490	\$ 30,500
Beyond one year and within five years	<u>99,672</u>	<u>118,014</u>	<u>136,047</u>
	<u>\$ 129,162</u>	<u>\$ 147,504</u>	<u>\$ 166,547</u>
Discount rate	4.96%	4.96%	5.04%
Total amount of present value of minimum lease payments			
Current	\$ 1,457,957	\$ 1,457,957	\$ 2,508,433
Noncurrent	<u>4,464,572</u>	<u>5,197,147</u>	<u>6,279,780</u>
	<u>\$ 5,922,529</u>	<u>\$ 6,655,104</u>	<u>\$ 8,788,213</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 May 2028. The Group does not have a bargain purchase option to acquire the leased planes and hangar at the expiration of the lease periods.

There are fixed and floated, the rental rates stated in the aircraft lease agreements. 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 June 30, 2016, the Group has rented eleven A330-300 planes, nine B737-800 planes, ten 777-300ER planes, six ERJ190 planes and eight A320-200 planes under operating contracts which the lease terms range from 8 to 12 years.

As of June 30, 2016, December 31, 2015 and June 30, 2015, the refundable deposits paid by the Group under operating lease contracts were \$926,027 thousand, \$952,520 thousand and \$958,034 thousand, respectively. Part of the guarantees is secured by credit guarantees, and outstanding credit guarantee as of June 30, 2016, December 31, 2015 and June 30, 2015 were \$1,361,790 thousand, \$1,304,259 thousand and \$881,824 thousand.

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

	June 30, 2016	December 31, 2015	June 30, 2015
Up to 1 year	\$ 9,917,790	\$ 8,896,478	\$ 7,205,233
Over 1 year to 5 years	37,158,329	33,344,415	26,725,587
Over 5 years	<u>36,512,606</u>	<u>32,325,852</u>	<u>25,991,707</u>
	<u>\$ 83,588,725</u>	<u>\$ 74,566,745</u>	<u>\$ 59,922,527</u>

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Minimum lease payment	<u>\$ 2,439,012</u>	<u>\$ 1,749,731</u>	<u>\$ 4,908,877</u>	<u>\$ 3,271,042</u>

23. OTHER PAYABLES

	June 30, 2016	December 31, 2015	June 30, 2015
Fuel cost	\$ 2,134,891	\$ 2,038,041	\$ 3,030,634
Ground service expense	1,471,657	1,890,418	1,463,609
Repair expense	1,214,202	916,442	1,475,544
Interest expense	139,009	262,601	200,200
Short-term employee benefits	2,432,144	3,310,173	2,479,280
Terminal surcharges	697,842	781,621	656,378
Commission expense	303,341	450,492	578,658
Others	<u>2,761,831</u>	<u>2,646,760</u>	<u>1,904,399</u>
	<u>\$ 11,154,917</u>	<u>\$ 12,296,548</u>	<u>\$ 11,788,702</u>

24. DEFERRED REVENUE

	June 30, 2016	December 31, 2015	June 30, 2015
Frequent flyer program	\$ 2,408,905	\$ 2,610,667	\$ 2,567,675
Advance ticket sales	<u>13,568,014</u>	<u>12,365,348</u>	<u>11,332,775</u>
	<u>\$ 15,976,919</u>	<u>\$ 14,976,015</u>	<u>\$ 13,900,450</u>
Current	\$ 14,181,844	\$ 13,112,086	\$ 12,074,230
Noncurrent	<u>1,795,075</u>	<u>1,863,929</u>	<u>1,826,220</u>
	<u>\$ 15,976,919</u>	<u>\$ 14,976,015</u>	<u>\$ 13,900,450</u>

25. PROVISIONS

	June 30, 2016	December 31, 2015	June 30, 2015
Operating lease-aircraft	<u>\$ 6,686,732</u>	<u>\$ 6,187,481</u>	<u>\$ 5,142,860</u>
Current	\$ 32,403	\$ 20,186	\$ 13,877
Non-current	<u>6,654,329</u>	<u>6,167,295</u>	<u>5,128,983</u>
	<u>\$ 6,686,732</u>	<u>\$ 6,187,481</u>	<u>\$ 5,142,860</u>
			Aircraft Lease Contract
Balance at January 1, 2015			\$ 4,303,780
Additional provisions recognized			932,826
Usage			(71,823)
Effect of exchange rate changes			<u>(21,923)</u>
Balance at June 30, 2015			<u>\$ 5,142,860</u>
Balance at January 1, 2016			\$ 6,187,481
Additional provisions recognized			1,274,785
Usage			(765,172)
Effect of exchange rate changes			<u>(10,362)</u>
Balance at June 30, 2016			<u>\$ 6,686,732</u>

The Company and Mandarin Airlines leased flight equipment 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 usage years, flight hours, flight cycle and the engine revolution times. The Company and Mandarin Airlines had existing obligation to recognize provision when signing the lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements, in accordance to the contract, Tigerair had to pay the maintenance reverse accounted for 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.

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Operating costs	\$ 151,563	\$ 98,433	\$ 301,195	\$ 196,126
Operating expenses	<u>85,927</u>	<u>32,426</u>	<u>149,797</u>	<u>70,377</u>
	<u>\$ 237,490</u>	<u>\$ 130,859</u>	<u>\$ 450,992</u>	<u>\$ 266,503</u>

27. EQUITY

a. Share capital

Common shares

	June 30, 2016	December 31, 2015	June 30, 2015
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>\$ 54,700,732</u>

b. Capital surplus

	June 30, 2016	December 31, 2015	June 30, 2015
Issuance of stock in excess of par value and conversion premium	\$ 552,470	\$ 552,470	\$ 550,355
Distribution of cash dividends to 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>232,887</u>
	<u>\$ 798,415</u>	<u>\$ 798,415</u>	<u>\$ 797,100</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, employee stock options and distribution of cash dividends to treasury shares held by subsidiaries may not be used for other purpose 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 amended Company's Articles of Incorporation provide that the following should be appropriated from annual net income (less any deficit): (a) approved by stockholders' meeting on June 24, 2016 in accordance with the latest the Company act 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.

For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 27 in financial statement of 2015.

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

On June 24, 2016 the stockholders resolved to the appropriations of earnings for 2015. The appropriations and dividends per share were as follows:

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

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:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Cash Flow Hedge	Total
Balance on January 1, 2015	\$ 99,852	\$ 4,015	\$ (2,009,565)	\$ (1,905,698)
Exchange differences arising on translating the foreign operations	(49,838)	-	-	(49,838)
Unrealized gain (loss) on available-for-sale financial assets	-	(4,451)	-	(4,451)
Cumulative gain (loss) arising on changes in fair value of hedging instruments	-	-	100,677	100,677
Cumulative gain arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	1,643,105	1,643,105
Effect of income tax	<u>8,473</u>	<u>-</u>	<u>(296,443)</u>	<u>(287,970)</u>
Balance on June 30, 2015	<u>\$ 58,487</u>	<u>\$ (436)</u>	<u>\$ (562,226)</u>	<u>\$ (504,175)</u>

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Cash Flow Hedge	Total
Balance on January 1, 2016	\$ 157,959	\$ 1,755	\$ (225,997)	\$ (66,283)
Exchange differences arising on translating the foreign operations	(59,142)	-	-	(59,142)
Unrealized gain (loss) on available-for-sale financial assets	-	(2,105)	-	(2,105)
Cumulative gain (loss) arising on changes in fair value of hedging instruments			(281,608)	(281,608)
Cumulative (loss) gain arising on changes in fair value of hedging instruments reclassified to profit or loss			334,635	334,635
Effect of income tax	<u>9,164</u>	<u>-</u>	<u>(8,397)</u>	<u>767</u>
Balance on June 30, 2016	<u>\$ 107,981</u>	<u>\$ (350)</u>	<u>\$ (181,367)</u>	<u>\$ (73,736)</u> (Concluded)

e. Non-controlling interest

	For the Six Months Ended June 30	
	2016	2015
Beginning balance	\$ 2,286,647	\$ 2,321,737
Net income attributable to non-controlling interest	117,849	83,559
Exchange differences arising on translating the foreign operations	785	(1,972)
Unrealized gain or loss on available-for-sale financial assets	(6,192)	(4,949)
Cumulative gain (loss) arising on changes in fair value of hedging instruments	4,539	-
Cumulative (loss) gain arising on changes in fair value of hedging instruments reclassified to profit or loss	1,250	-
Acquisition of non-controlling interests in subsidiaries	(4,548)	-
Effect of income tax	(3,677)	(671)
Dividends paid by subsidiaries	<u>(201,899)</u>	<u>(157,063)</u>
Ending balance	<u>\$ 2,194,754</u>	<u>\$ 2,240,641</u>

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of June 30, 2016 and 2015 are as follows:

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
<u>Six months ended June 30, 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>Six months ended June 30, 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>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>June 30, 2016</u>			
Mandarin Airlines	2,075	\$ 20,103	\$ 20,103
Hwa Hsia	814	<u>7,889</u>	<u>7,889</u>
		<u>\$ 27,992</u>	<u>\$ 27,992</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>
<u>June 30, 2015</u>			
Mandarin Airlines	2,075	\$ 27,281	\$ 27,281
Hwa Hsia	814	<u>10,706</u>	<u>10,706</u>
		<u>\$ 37,987</u>	<u>\$ 37,987</u>

The acquisition of the Company's stock by subsidiaries above 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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Passenger	\$ 22,818,747	\$ 23,106,063	\$ 47,546,478	\$ 46,733,443
Cargo	8,452,843	10,059,057	16,259,772	21,203,933
Others	<u>2,563,376</u>	<u>2,456,127</u>	<u>5,027,739</u>	<u>4,847,776</u>
	<u>\$ 33,834,966</u>	<u>\$ 35,621,247</u>	<u>\$ 68,833,989</u>	<u>\$ 72,785,152</u>

b. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Interest income	\$ 52,994	\$ 117,378	\$ 144,223	\$ 224,619
Subsidy income	92,935	39,575	100,385	100,299
Dividend income	5,745	223,050	5,745	223,050
Others	<u>93,932</u>	<u>74,084</u>	<u>151,297</u>	<u>169,443</u>
	<u>\$ 245,606</u>	<u>\$ 454,087</u>	<u>\$ 401,650</u>	<u>\$ 717,411</u>

c. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Gain on disposal property, plant and equipment	\$ 5,889	\$ 1,661	\$ 9,284	\$ 3,441
Loss on disposal of noncurrent assets held for sale	(26,429)	-	(26,429)	-
Net gain (loss) arising on financial assets classified as held for trading	6,331	(41,499)	(19,043)	(48,384)
Gain or loss on foreign exchange, net	(217,279)	(4,557)	(452,066)	(3,035)
Others	<u>(453,675)</u>	<u>(239,901)</u>	<u>(636,149)</u>	<u>(374,966)</u>
	<u>\$ (685,163)</u>	<u>\$ (284,296)</u>	<u>\$ (1,124,403)</u>	<u>\$ (422,944)</u>

The mediation of labor-management disputes between the Company and Taoyuan Flight Attendants Union (TFAU) was unsuccessful, TFAU acquired the right to strike through strike vote, and started the strike at twelve a.m. on June 24, 2016, and the scheduled flight resumed normal on June 25, 2016 after reaching a consensus for both parties. Other related information please refer to the Taiwan Stock Exchange Market Observation Post System.

The Company had provided compensatory plan to the passengers and the agents suffered loss from the strike, and recognized estimated expense \$287,000 thousand. Actual compensation amount depend on the actual situation to decide.

d. Financial cost

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Interest expense				
Bonds payable	\$ 78,411	\$ 71,507	\$ 144,472	\$ 157,205
Bank loan	227,283	354,207	486,215	713,885
Interest on obligations under financial lease	21,044	36,950	40,038	74,229
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss	<u>2,633</u>	<u>837</u>	<u>3,912</u>	<u>3,036</u>
	<u>\$ 329,371</u>	<u>\$ 463,501</u>	<u>\$ 674,637</u>	<u>\$ 948,355</u>

Information of interest capitalization was as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Capitalization rate	1.61%-1.66%	1.74%-1.79%	1.61%-1.73%	1.74%-1.79%
Capitalization interest	<u>\$ 111,331</u>	<u>\$ 77,415</u>	<u>\$ 220,074</u>	<u>\$ 151,572</u>

e. Depreciation and amortization expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Property, plant, equipment	\$ 4,344,946	\$ 4,381,392	\$ 8,612,803	\$ 8,815,582
Investment property	70	70	140	140
Intangible asset	<u>24,696</u>	<u>15,902</u>	<u>48,008</u>	<u>31,370</u>
Depreciation and amortization expense	<u>\$ 4,369,712</u>	<u>\$ 4,397,364</u>	<u>\$ 8,660,951</u>	<u>\$ 8,847,092</u>
An analysis of depreciation by function				
Operating cost	\$ 4,173,340	\$ 4,157,826	\$ 8,270,132	\$ 8,368,576
Operating expense	<u>171,676</u>	<u>223,636</u>	<u>342,811</u>	<u>447,146</u>
	<u>\$ 4,345,016</u>	<u>\$ 4,381,462</u>	<u>\$ 8,612,943</u>	<u>\$ 8,815,722</u>
An analysis of amortization by function				
Operating cost	\$ -	\$ 211	\$ 32	\$ 422
Operating expense	<u>24,696</u>	<u>15,691</u>	<u>47,976</u>	<u>30,948</u>
	<u>\$ 24,696</u>	<u>\$ 15,902</u>	<u>\$ 48,008</u>	<u>\$ 31,370</u>

f. Employment benefit expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Post-employment benefit				
Defined contribution plan	\$ 105,537	\$ 88,392	\$ 207,339	\$ 175,520
Defined benefit plan	<u>237,490</u>	<u>130,859</u>	<u>450,992</u>	<u>266,503</u>
	<u>\$ 343,027</u>	<u>\$ 219,251</u>	<u>\$ 658,331</u>	<u>\$ 442,023</u>
Other employee benefits				
Salary expenses	\$ 4,422,432	\$ 3,621,830	\$ 9,421,104	\$ 8,736,665
Personnel service expenses	<u>1,096,383</u>	<u>1,576,124</u>	<u>2,499,577</u>	<u>2,600,103</u>
	<u>\$ 5,518,815</u>	<u>\$ 5,197,954</u>	<u>\$ 11,920,681</u>	<u>\$ 11,336,768</u>
An analysis of employee benefit expense by function				
Operating cost	\$ 4,880,415	\$ 4,440,375	\$ 10,199,659	\$ 9,525,670
Operating expense	<u>981,427</u>	<u>976,830</u>	<u>2,379,353</u>	<u>2,253,121</u>
	<u>\$ 5,861,842</u>	<u>\$ 5,417,205</u>	<u>\$ 12,579,012</u>	<u>\$ 11,778,791</u>

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 six months ended June 30, 2016, the employees' compensation is \$446,853 thousand of the base net profit. The employee bonus for the three months and six months ended June 30, 2015 was calculated based on the previous Article of Incorporation and both recognized \$1,454 thousand.

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 2016 and 2015 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

29. INCOME TAX

a. Income tax expense recognized in profit or loss

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Current tax				
Current year	\$ 57,330	\$ 73,969	\$ 106,492	\$ 121,628
Prior year adjustment	(116)	1,983	(116)	1,983
Deferred tax				
Current year	<u>25,120</u>	<u>201,281</u>	<u>334,855</u>	<u>587,770</u>
Income tax expense recognized in profit or loss	<u>\$ 82,334</u>	<u>\$ 277,233</u>	<u>\$ 441,231</u>	<u>\$ 711,381</u>

b. Income tax recognized in other comprehensive income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ (1)	\$ 4,389	\$ 6,929	\$ 7,802
Fair value revaluation of hedging instruments fair for cash flow hedging	<u>(14,100)</u>	<u>(180,812)</u>	<u>(9,839)</u>	<u>(296,443)</u>
Total income tax recognized in other comprehensive income	<u>\$ (14,101)</u>	<u>\$ (176,423)</u>	<u>\$ (2,910)</u>	<u>\$ (288,641)</u>

c. Integrated income tax

	June 30, 2016	December 31, 2015	June 30, 2015
Imputation credits accounts	<u>\$ 585,895</u>	<u>\$ 551,908</u>	<u>\$ 465,608</u>

Expected creditable tax ratio on December 31, 2015 was 20.22%. 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 as denied by tax authority, and the TACT took an appeal. The ruling by the Supreme Administrative Court had only 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.

High administrative court had reached a decision on June 15, 2016, and the verdict was 0.46 of the amount of the excessive distribution of ICA, TACT refused to accept the resolution, and appealed to the supreme administrative court on July 4, 2016, and the amount of provision recognized by TACT for over-distributed tax and fine was \$168,155 thousand.

30. EARNINGS (LOSS) PER SHARE

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Basic earnings (loss) per share	<u>\$ (0.03)</u>	<u>\$ 0.20</u>	<u>\$ 0.24</u>	<u>\$ 0.55</u>
Diluted earnings (loss) per share	<u>\$ (0.03)</u>	<u>\$ 0.20</u>	<u>\$ 0.23</u>	<u>\$ 0.53</u>
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Earnings (loss) used in the computation of basic earnings per share	\$ (169,612)	\$ 1,116,577	\$ 1,294,339	\$ 2,966,956
Effect of potentially dilutive ordinary shares:				
Interest on convertible bonds (after tax)	<u> -</u>	<u> 11,031</u>	<u> 23,145</u>	<u> 27,025</u>
Earnings (loss) used in the computation of diluted earnings per share	<u>\$ (169,612)</u>	<u>\$ 1,127,608</u>	<u>\$ 1,317,484</u>	<u>\$ 2,993,981</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	5,470,891	5,451,790	5,470,891	5,397,073
Effect of potentially dilutive ordinary shares:				
Convertible bonds	-	236,617	219,306	291,455
Employees' compensation or bonus issue to employees	<u>-</u>	<u>28</u>	<u>58,350</u>	<u>55</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	<u>5,470,891</u>	<u>5,688,435</u>	<u>5,748,547</u>	<u>5,688,583</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. 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.

	June 30, 2016		December 31, 2015		June 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>						
Bonds payable	\$ 18,167,339	\$ 18,495,234	\$ 15,844,106	\$ 16,459,680	\$ 15,830,223	\$ 16,249,779
Loans and debt	83,006,257	83,056,839	87,783,617	87,944,264	94,461,026	94,569,684

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of June 30, 2016, December 31, 2015 and June 30, 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 0.694%, 0.433% and 0.900%, 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).

b. Financial instrument 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:

- 1) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) 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
- 3) 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).

June 30, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	\$ -	\$ 9,009	\$ -	\$ 9,009
Domestic money market fund	<u>1,046,604</u>	<u>-</u>	<u>-</u>	<u>1,046,604</u>
	<u>\$ 1,046,604</u>	<u>\$ 9,009</u>	<u>\$ -</u>	<u>\$ 1,055,613</u>
Financial liabilities at FVTPL				
Derivative instrument	<u>\$ -</u>	<u>\$ 3,863</u>	<u>\$ -</u>	<u>\$ 3,863</u>
Available-for-sale financial assets				
Securities listed in domestic	<u>\$ 14,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,623</u>
Derivative financial assets for hedging				
	<u>\$ -</u>	<u>\$ 24,095</u>	<u>\$ 818</u>	<u>\$ 24,913</u>
Derivative financial liabilities for hedging				
	<u>\$ -</u>	<u>\$ 149,658</u>	<u>\$ 94,552</u>	<u>\$ 244,210</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
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>
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>

June 30, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	\$ -	\$ 16,735	\$ -	\$ 16,735
Domestic money market fund	<u>137,975</u>	<u>-</u>	<u>-</u>	<u>137,975</u>
	<u>\$ 137,975</u>	<u>\$ 16,735</u>	<u>\$ -</u>	<u>\$ 154,710</u>
Financial liabilities at FVTPL				
Derivative instrument	<u>\$ -</u>	<u>\$ 35,157</u>	<u>\$ -</u>	<u>\$ 35,157</u>
Available-for-sale financial assets				
Securities listed in domestic	<u>\$ 19,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,481</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 9,940</u>	<u>\$ 71,628</u>	<u>\$ 81,568</u>
Derivative financial liabilities for hedging	<u>\$ -</u>	<u>\$ 6,995</u>	<u>\$ 739,281</u>	<u>\$ 746,276</u>

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

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

- 5) 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. Change in the implied fluctuation used in isolation would result in a increase or 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.

c. Categories of financial instruments

	June 30, 2016	December 31, 2015	June 30, 2015
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,055,613	\$ 544,036	\$ 154,710
Available-for-sale financial assets (Note 3)	234,543	242,991	486,931
Derivative financial assets for hedging	24,913	63,798	81,568
Loans and receivables (Note 1)	<u>36,944,473</u>	<u>35,800,865</u>	<u>37,084,040</u>
	<u>\$ 38,259,542</u>	<u>\$ 36,651,690</u>	<u>\$ 37,807,249</u>
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	\$ 3,863	\$ -	\$ 35,157
Derivative financial liabilities for hedging	244,210	324,980	746,276
Financial liabilities at amortized cost (Note 2)	<u>121,990,848</u>	<u>125,241,381</u>	<u>135,749,879</u>
	<u>\$ 122,238,921</u>	<u>\$ 125,566,361</u>	<u>\$ 136,531,312</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.

d. 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 for effective 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 June 30, 2016 \$344,567 thousand and increase in pre-tax profit by the end of June 30, 2015 \$185,156 thousand, respectively.

b) Interest rate risk

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

The risk is managed by the Group through 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 liabilities with exposure to interest rates at the end of the reporting period were as follows.

	June 30, 2016	December 31, 2015	June 30, 2015
Fair value interest rate risk			
Financial liabilities	\$ 18,745,358	\$ 16,723,881	\$ 19,497,352
Cash flow interest rate risk			
Financial liabilities	88,468,993	93,742,231	102,382,171

Sensitivity analysis

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

Had interest rates been one yard (25 basis) points higher and had all other variables been held constant, the Group's pretax profit for the six months ended June 30, 2016 would have decreased by \$110,586 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 six months ended June 30, 2015 would have decreased by \$127,978 thousand.

c) Other price risk

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

Sensitivity analysis

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

	For the Six Months Ended June 30			
	2016		2015	
	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)
Fuel price increase 5%	\$ 1,269	\$ 1,730	\$ 23,011	\$ 207,921
Fuel price decrease 5%	(2,345)	(1,617)	(23,011)	76,632

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 the 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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
<u>Sales of goods</u>				
Associates	\$ 529	\$ 573	\$ 1,304	\$ 895
Jointly controlled entities	\$ 3,471	\$ 3,498	\$ 6,813	\$ 7,024
Major stockholder	\$ 8,132	\$ 9,527	\$ 16,979	\$ 17,563

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
<u>Purchases of goods</u>				
Associates	\$ 163,844	\$ 137,680	\$ 330,214	\$ 267,200
Jointly controlled entities	\$ 390,762	\$ 387,543	\$ 785,098	\$ 749,357
Major stockholder	\$ 17,608	\$ 20,868	\$ 37,642	\$ 39,441

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

	June 30, 2016	December 31, 2015	June 30, 2015
Associates	\$ 186	\$ 182	\$ 84
Jointly controlled entities	1,749	599	1,774
Major stockholder	<u>2,282</u>	<u>3,093</u>	<u>2,904</u>
	<u>\$ 4,217</u>	<u>\$ 3,874</u>	<u>\$ 4,762</u>

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

	June 30, 2016	December 31, 2015	June 30, 2015
Associates	\$ 90,360	\$ 98,245	\$ 79,889
Jointly controlled entities	397,337	388,371	392,060
Major stockholder	<u>5,272</u>	<u>7,138</u>	<u>6,678</u>
	<u>\$ 492,969</u>	<u>\$ 493,754</u>	<u>\$ 478,627</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 June 30, 2016 and 2015, the Company had paid rentals of \$37,642 thousand and \$39,441 thousand, respectively; for the three months ended June 30, 2016 and 2015, were \$17,608 thousand and \$20,868 thousand.

c. Endorsements and guarantees

	June 30, 2016		December 31, 2015		June 30, 2015	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 2,776,000	\$ 3,400,000	\$ 2,739,000	\$ 3,400,000	\$ 2,822,000
Taiwan Air Cargo Terminal	1,080,000	471,877	1,080,000	486,815	1,080,000	539,554
Freighter Prince Ltd.	-	-	236,629	236,629	272,596	272,596
Cal Hotel	180,000	3,171	180,000	6,343	180,000	9,514
Tigerair Taiwan	919,742	438,740	937,895	447,399	880,000	419,782

d. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Short-term employee benefits	\$ 9,786	\$ 8,901	\$ 26,931	\$ 20,240
Post-employment benefits	<u>719</u>	<u>620</u>	<u>1,523</u>	<u>1,130</u>
	<u>\$ 10,505</u>	<u>\$ 9,521</u>	<u>\$ 28,454</u>	<u>\$ 21,370</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:

	June 30, 2016	December 31, 2015	June 30, 2015
Property, plant and equipment	\$ 85,581,321	\$ 90,642,565	\$ 108,289,837
Restricted assets - noncurrent			
Pledged certificate deposits	187,338	268,790	311,765
US treasury bill	<u>-</u>	<u>236,634</u>	<u>596</u>
	<u>\$ 85,768,659</u>	<u>\$ 91,147,989</u>	<u>\$ 108,874,198</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 June 30, 2016, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

- a. 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 are from 2016 to 2018.

Prepayments for aircraft purchases were as follows:

June 30, 2016	December 31, 2015	June 30, 2015
US\$811,613 thousand	US\$685,231 thousand	US\$546,119 thousand

- b. For the future development of the Group's business, the Group made a lease contract with BOC Aviation and letter to lease six 737-800 aircrafts. The expected delivery slot will be August 2016.
- c. The Tigerair Taiwan entered into a lease contract of the four A320-200 aircrafts with 10 years lease term on July, November and December 2015, two of which had been delivered in January and June 2016. The expected delivery date of the rest aircrafts will be in January and December 2017.

- d. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board 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 Taoyuan International Airport and Kaohsiung International Airport, and got the approvals from Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

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

As of June 30, 2016, TACT had signed the following construction contracts with unrelated parties:

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction 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 June 30, 2016, the cumulated consultant service expense and construction equipment had amounted to \$412,904 thousand (VAT included) and \$4,148,846 thousand (VAT included), respectively. Upon completion of the projects, the amount 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.

- e. 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:

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

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

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

CAL Park should pay land rentals on the date of the registration of surface rights. The 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 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.

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

- g. The Group has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action filed at the US Northern District Court of California by a group of 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.
- h. The Company has reached a settlement with the class plaintiffs of “Air Cargo Antitrust Class Action” on May 6, 2014. One of plaintiffs - DHL Global Forwarding (DHL) et al. has opted out from class action. In early 2015, DHL has filed a civil lawsuit against the Company at United States District Court for the Eastern District of New York and the Company has responded to the notice of summons. Settlement proceeding is considered and presumptive loss has been listed.

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:

June 30, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 571,016	32.2581	\$ 18,419,902
EUR	16,848	35.8423	603,875
HKD	286,365	4.1610	1,191,620
JPY	1,373,314	0.3142	430,092
CNY	895,160	4.8591	4,349,670

Financial liabilities

Monetary items			
USD	213,355	32.2581	6,882,415
EUR	5,814	35.8423	208,396
HKD	75,398	4.1610	313,166
JPY	4,735,673	0.3142	1,480,115
CNY	158,262	4.8591	769,012

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<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

Financial liabilities

Monetary items			
USD	153,815	32.8947	5,059,699
EUR	8,353	35.9712	299,732
HKD	87,413	4.2445	371,024
JPY	4,632,721	0.2731	1,265,198
CNY	150,973	5.0659	764,813

June 30, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 278,425	30.8642	\$ 8,596,194
EUR	16,626	34.6021	575,282
HKD	208,630	3.9857	831,535
JPY	1,745,696	0.2528	443,940
CNY	2,669,873	4.9776	13,290,038
<u>Financial liabilities</u>			
Monetary items			
USD	330,631	30.8642	10,205,104
EUR	5,910	34.6021	204,493
HKD	74,549	3.9857	297,128
JPY	4,698,221	0.2528	1,187,956
CNY	165,726	4.9776	824,917

For the three months ended June 30, 2016 and 2015, net foreign exchange losses were \$217,279 thousand and \$4,557 thousand, respectively; for the six months ended June 30, 2016 and 2015, were \$452,066 thousand and \$3,035 thousand. 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 Group 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 Group's sole reportable segment is the flight segment. For operating segment reporting in the consolidated financial statements, the reportable segment of the Group 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.

	For the Six Months Ended June 30, 2016			
	Air Transportation	Others	Adjustment and Write-off	Total
Operating revenue	<u>\$ 68,051,014</u>	<u>\$ 3,888,563</u>	<u>\$ (3,105,588)</u>	<u>\$ 68,833,989</u>
Operating profit and losses	<u>\$ 2,424,761</u>	<u>\$ 567,361</u>	<u>\$ -</u>	\$ 2,992,122
Interest revenue				144,223
Investment income accounted for by the equity method				258,687
Revenue				222,952
Financial cost				(674,637)
Expense				<u>(1,089,928)</u>
Profit before income tax				<u>\$ 1,853,419</u>
Identifiable assets	<u>\$ 118,464,017</u>	<u>\$ 9,599,284</u>	<u>\$ -</u>	\$ 128,063,301
Investment accounted for by the equity method				2,925,267
Assets				<u>87,823,443</u>
Total assets				<u>\$ 218,812,011</u>

For the Six Months Ended June 30, 2015

	Air Transportation	Others	Adjustment and Write-off	Total
Operating revenue	<u>\$ 72,506,799</u>	<u>\$ 3,699,546</u>	<u>\$ (3,421,193)</u>	<u>\$ 72,785,152</u>
Operating profit and losses	<u>\$ 3,743,398</u>	<u>\$ 405,253</u>	<u>\$ 18,248</u>	\$ 4,166,899
Interest revenue				224,619
Investment income accounted for by the equity method				248,885
Revenue				469,418
Financial cost				(948,355)
Expense				<u>(399,570)</u>
Profit before income tax				<u>\$ 3,761,896</u>
Identifiable assets	<u>\$ 128,408,789</u>	<u>\$ 9,660,956</u>	<u>\$ (3,093)</u>	\$ 138,066,652
Investment accounted for by the equity method				2,612,667
Assets				<u>87,146,908</u>
Total assets				<u>\$ 227,826,227</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	\$ 11,408,617	\$ 3,850,000	\$ 3,850,000	\$ 2,776,000	\$ -	6.75	\$ 28,521,542	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,408,617	1,080,000	1,080,000	471,877	-	1.89	28,521,542	Y	N	N
		Freighter Prince Ltd.	100% subsidiary	11,408,617	240,586	-	-	-	-	28,521,542	Y	N	N
		Cal Hotel	100% subsidiary	11,408,617	180,000	180,000	3,171	-	0.32	28,521,542	Y	N	N
		Tigerair Taiwan Ltd.	90% subsidiary by direct and indirect holdings	11,408,617	953,579	919,742	438,740	-	1.61	28,521,542	Y	N	N

Note 1: Based on the Group's guidelines, the maximum amount of guarantee to an individual counterparty 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

JUNE 30, 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	June 30, 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	\$ 233,454	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	174	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	34,525	-
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	592,500	5,925	6.22	742	-
	<u>Beneficial certificates</u>							
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	58,745,395.66	600,255	-	600,255	-
Mandarin Airlines	<u>Stock</u>							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	20,103	-	20,103	-
	<u>Beneficial certificates</u>							
	Fuh Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	9,794,655.56	125,877	-	125,877	-
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	32,406	-	32,406	-
	Deutsche America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	32,426	-	32,426	-
Cal-Asia Investment	<u>Stock</u>							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	72,697	5.83	(2,549)	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	21,098	5.45	2,211	Note 2
Sabre Distribution Network	<u>Beneficial certificates</u>							
	Mirae Asset Solomon Money Market Fund	-	Financial assets at fair value through profit or loss - current	265,726.48	3,316	-	3,316	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,637,002.66	57,499	-	57,499	-
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,523,757.68	56,441	-	56,441	-
	Allianz Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,287,409.14	15,954	-	15,954	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,941,750.30	59,619	-	59,619	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2016				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Taiwan Airport Services	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	317,541.32	\$ 56,032	-	\$ 56,032	-
Hwa Hsia	<u>Stock</u> TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,277,786	14,623	0.4	14,623	-
Hwa Sin	<u>Stock</u> China Airlines	Parent company	Available-for-sale financial asset - current	814,152	7,889	-	7,889	-
	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,522.71	4,676	-	4,676	-
	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	157,069.71	2,103	-	2,103	-

Note 1: The subsidiary's net asset value was \$233,454 thousand, which included common stock and preferred stock as of June 30, 2016.

Note 2: The net asset value was calculated using the investee's financial statements for the five months ended May 31, 2016, because the group was unable to acquire the investee's financial statements for the six months ended June 30, 2016.

(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 SIX MONTHS ENDED JUNE 30, 2016

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	Sale	\$ (1,359,478)	(2.19)	2 months	\$ -	-	\$ 490,571	5.51	-
	China Pacific Catering Services	Equity-method investee	Purchase	732,794	1.35	60 days	-	-	(379,000)	(14.04)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	564,298	1.04	40 days	-	-	(331,672)	(12.28)	-
	China Aircraft Services	Equity-method investee	Purchase	107,003	0.20	30 days	-	-	(34,455)	(1.28)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	152,024	0.28	60 days	-	-	(43,564)	(1.61)	-
	Tigerair Taiwan Co., Ltd.	Subsidiary	Sale	(123,473)	(0.20)	1 month	-	-	64,745	0.76	-
	Taiwan Air Cargo Terminal	Subsidiary	Purchase	191,029	0.35	30 days	-	-	(35,159)	(1.30)	-
	Hwa Hsia	Subsidiary	Purchase	143,447	0.27	2 months	-	-	(2,263)	(0.08)	-
	Taiwan Airport Services	Subsidiary	Purchase	189,674	0.35	40 days	-	-	(62,881)	(2.33)	-
	Cal Park	Subsidiary	Purchase	108,605	0.20	2 months	-	-	(199,109)	(7.37)	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

JUNE 30, 2016

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 490,571	5.40	\$ -	-	\$ 260,961	\$ -
Mandarin Airlines	China Airlines	Parent company	277,065	0.38	-	-	242,527	-
China Pacific Catering Services	China Airlines	Parent company	379,000	3.91	-	-	129,721	-
Taoyuan International Airport Service	China Airlines	Parent company	331,672	3.52	-	-	185,792	-
Cal Park	China Airlines	Parent company	199,109	1.50	-	-	-	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX MONTHS ENDED JUNE 30, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2016			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 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	\$ 1,517,643	\$ 6,819	\$ 6,819	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation	2,042,368	2,042,368	188,154,025	93.99	1,344,694	(20,433)	(19,205)	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,266,583	12,014	6,488	-
	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	1,235,310	20,184	20,184	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	809,920	205,462	104,785	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	702,440	209,689	102,748	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	526,358	6,862	6,862	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	351,987	92,038	86,452	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	510,629	150,606	30,121	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	225,401	208,599	51,107	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	239,508	77,393	36,646	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	228,874	100,336	35,900	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	352,012	38,138	38,138	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	214,745	150,654	18,633,937	26.00	240,071	31,654	8,230	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	157,757	17,086	9,398	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	83,984	10,662	10,662	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,613	453	453	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	33,993	3,016	1,538	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,459	2,950	737	-
	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	642,631	(422,429)	(337,943)	-	
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	60,000	60,000	6,000,000	100.00	32,247	(9,485)	(9,485)	-	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation	200,000	200,000	20,000,000	10.00	80,329	(422,429)	(42,243)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	3,574	469,755	1.08	343	77,393	570	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	41,107	2,677	937	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	396,039	8,662	8,662	Note 3
Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	Building security and maintenance services	10,000	10,000	1,000,000	100.00	20,015	3,340	3,340	-

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 the record date of the stock issuance 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 SIX MONTHS ENDED JUNE 30, 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 June 30, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of June 30, 2016	Accumulated Inward Remittance of Earnings as of June 30, 2016
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,090,768 (RMB 224,480)	Indirect (Note 1)	\$ 135,032 (US\$ 4,186)	\$ -	\$ -	\$ 135,032 (US\$ 4,186)	\$ 20,816 (RMB 4,184)	14.00	\$ 2,914 (RMB 586)	\$ 238,377 (RMB 49,058)	\$ 58,516 (US\$ 1,814) (Note 4)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	68,027 (RMB 14,000)	Indirect (Note 1)	62,806 (US\$ 1,947)	-	-	62,806 (US\$ 1,947)	41,642 (RMB 8,370)	14.00	5,830 (RMB 1,172)	110,267 (RMB 22,693)	
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,190,000 (US\$ 36,890)	Indirect (Note 1)	69,387 (US\$ 2,151)	-	-	69,387 (US\$ 2,151)	-	5.83	-	72,697 (RMB 14,961)	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	376,226 (US\$ 11,663)	Indirect (Note 1)	20,516 (US\$ 636)	-	-	20,516 (US\$ 636)	-	5.45	-	21,098 (RMB 4,342)	
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	100,000 (US\$ 3,100)	Indirect (Note 2)	8,000 (US\$ 248)	-	-	8,000 (US\$ 248)	-	8.00	-	8,000 (US\$ 248)	
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	32,258 (US\$ 1,000)	Indirect (Note 3)	5,548 (US\$ 172)	-	-	5,548 (US\$ 172)	-	17.15	-	5,548 (US\$ 172)	

Accumulated Investment in Mainland China as of June 30, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$301,290 (US\$9,340)	\$525,422 (Note 5)	\$35,542,702 (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 June 30, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of June 30, 2016	Accumulated Repatriation of Investment Income as of June 30, 2016
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,090,768 (RMB 224,480)	Indirect (Note 7)	\$ 132,516 (US\$ 4,018)	\$ -	\$ -	\$ 132,516 (US\$ 4,018)	\$ 20,816 (RMB 4,184)	14.00	\$ 3,063 (RMB 586)	\$ 243,484 (RMB 49,592)	\$ 122,774 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	68,027 (RMB 14,000)	Indirect (Note 7)	62,161 (US\$ 1,927)	-	-	62,161 (US\$ 1,927)	41,642 (RMB 8,370)	14.00	6,402 (RMB 1,172)	119,380 (RMB 23,703)	45,387 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of June 30, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$191,774 (US\$5,945)	\$191,774 (US\$5,945)	\$303,494 (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 as of June 30, 2016 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 SIX MONTHS ENDED JUNE 30, 2016

(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			% to Total Consolidated Total Revenue or Assets
				Accounts	Amount	Transaction Criteria	
0	China Airlines, Ltd.	Global Sky Express	a	Other operating revenue	\$ 40,976	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Passenger revenue	1,163,955	The same as ordinary transactions	1.69
		Taiwan Air Cargo Terminal	a	Other operating revenue	7,156	The same as ordinary transactions	0.01
		Mandarin Airlines	a	Other operating revenue	195,523	The same as ordinary transactions	0.28
		Taoyuan International Airport Services	a	Other operating revenue	1,714	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Other operating revenue	1,263	The same as ordinary transactions	-
		Taiwan Airport Services	a	Other operating revenue	5,886	The same as ordinary transactions	0.01
		Hwa Hsia	a	Other operating revenue	4,636	The same as ordinary transactions	0.01
		Dynasty Holidays	a	Other operating revenue	863	The same as ordinary transactions	-
		Global Sky Express	a	Other operating revenue	1,255	The same as ordinary transactions	-
		Yestrip	a	Other operating revenue	2,733	The same as ordinary transactions	-
		Cal Hotel	a	Other operating revenue	2,891	The same as ordinary transactions	-
		Tigerair Taiwan	a	Other operating revenue	123,473	The same as ordinary transactions	0.18
		Taiwan Aircraft Maintenance and Engineering	a	Other operating revenue	6,723	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	a	Terminal and landing fees	564,298	The same as ordinary transactions	0.82
		Taiwan Airport Services	a	Terminal and landing fees	189,674	The same as ordinary transactions	0.28
		Hwa Hsia	a	Terminal and landing fees	143,447	The same as ordinary transactions	0.21
		Mandarin Airlines	a	Passenger costs	50,056	The same as ordinary transactions	0.07
		Tigerair Taiwan	a	Passenger costs	10,985	The same as ordinary transactions	0.02
		Taiwan Air Cargo Terminal	a	Other operating cost	191,029	The same as ordinary transactions	0.28
		Dynasty Holidays	a	Other operating cost	24,213	The same as ordinary transactions	0.04
		Cal-Dynasty International	a	Other operating cost	29,001	The same as ordinary transactions	0.04
		Yestrip	a	Other operating cost	3,323	The same as ordinary transactions	-
		Cal Park	a	Other operating cost	108,605	The same as ordinary transactions	0.16
		Cal Hotel	a	Other operating cost	89,580	The same as ordinary transactions	0.13
		Sabre Travel Network Taiwan	a	Operating expense	3,567	The same as ordinary transactions	0.01
		Mandarin Airlines	a	Interest expense	336	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Interest expense	67	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	a	Accounts receivable - related parties	1,292	The same as ordinary transactions	-
		Mandarin Airlines	a	Accounts receivable - related parties	490,571	The same as ordinary transactions	0.22
Sabre Travel Network Taiwan	a	Accounts receivable - related parties	590	The same as ordinary transactions	-		
Global Sky Express	a	Accounts receivable - related parties	2,971	The same as ordinary transactions	-		
Yestrip	a	Accounts receivable - related parties	15,695	The same as ordinary transactions	0.01		
Cal Hotel	a	Accounts receivable - related parties	507	The same as ordinary transactions	-		
Tigerair Taiwan	a	Accounts receivable - related parties	64,745	The same as ordinary transactions	0.03		
Taiwan Airport Services	a	Accounts receivable - related parties	1,005	The same as ordinary transactions	-		

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
		Taiwan Aircraft Maintenance and Engineering	a	Accounts receivable - related parties	\$ 875	The same as ordinary transactions	-
		Global Sky Express	a	Dividends receivable	1,925	The same as ordinary transactions	-
		Hwa Hsia	a	Dividends receivable	16,536	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	a	Dividends receivable	122,451	The same as ordinary transactions	0.06
		Taiwan Airport Services	a	Dividends receivable	52,389	The same as ordinary transactions	0.02
		Yestrip	a	Dividends receivable	3,991	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Dividends receivable	172,566	The same as ordinary transactions	0.08
		Taiwan Air Cargo Terminal	a	Accounts payable - related parties	35,159	The same as ordinary transactions	0.02
		Mandarin Airlines	a	Accounts payable - related parties	277,065	The same as ordinary transactions	0.13
		Taoyuan International Airport Services	a	Accounts payable - related parties	331,672	The same as ordinary transactions	0.15
		Sabre Travel Network Taiwan	a	Accounts payable - related parties	1,282	The same as ordinary transactions	-
		Taiwan Airport Services	a	Accounts payable - related parties	62,881	The same as ordinary transactions	0.03
		Hwa Hsia	a	Accounts payable - related parties	2,263	The same as ordinary transactions	-
		Yestrip	a	Accounts payable - related parties	724	The same as ordinary transactions	-
		Cal Hotel	a	Accounts payable - related parties	19,611	The same as ordinary transactions	0.01
		Cal Park	a	Accounts payable - related parties	199,109	The same as ordinary transactions	0.09
		Mandarin Airlines	a	Interest payable	336	The same as ordinary transactions	-
		Mandarin Airlines	a	Bonds payable - noncurrent	250,000	The same as ordinary transactions	0.11
		Sabre Travel Network Taiwan	a	Bonds payable - noncurrent	50,000	The same as ordinary transactions	0.02
		Sabre Travel Network Taiwan	a	Interest payable	67	The same as ordinary transactions	-
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	191,029	The same as ordinary transactions	0.28
		Mandarin Airlines	c	Sales revenue	5,806	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	c	Operating costs	3,015	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Operating costs	7,156	The same as ordinary transactions	0.01
		Hwa Hsia	c	Operating costs	5,476	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	35,159	The same as ordinary transactions	0.02
		Mandarin Airlines	c	Accounts receivable - related parties	1,173	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	50,056	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Passenger costs	1,163,955	The same as ordinary transactions	1.69
		Taiwan Airport Services	c	Terminal and landing fees	51,941	The same as ordinary transactions	0.08
		Taoyuan International Airport Services	c	Terminal and landing fees	20,006	The same as ordinary transactions	0.03
		Taiwan Air Cargo Terminal	c	Terminal and landing fees	5,806	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating expense	195,523	The same as ordinary transactions	0.28
		China Airlines, Ltd.	b	Interest revenue	336	The same as ordinary transactions	-
		Tigerair Taiwan	c	Operating revenue	2,101	The same as ordinary transactions	-
		Tigerair Taiwan	c	Accounts receivable - related parties	9,382	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	277,065	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Interest receivable	336	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	490,571	The same as ordinary transactions	0.22
		Taiwan Airport Services	c	Accounts payable - related parties	12,761	The same as ordinary transactions	0.01
		Taiwan Air Cargo Terminal	c	Accounts payable - related parties	1,173	The same as ordinary transactions	-
		Taoyuan International Airport Services	c	Accounts payable - related parties	3,391	The same as ordinary transactions	-

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
		China Airlines, Ltd. Taiwan Airport Services	b c	Held-to-maturity financial assets Dividends receivable	\$ 250,000 1,192	The same as ordinary transactions The same as ordinary transactions	0.11 -
3	Taoyuan International Airport Services	Mandarin Airlines Taiwan Air Cargo Terminal Tigerair Taiwan China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. Mandarin Airlines China Airlines, Ltd.	c c c b b b c b	Airport service revenue Airport service revenue Airport service revenue Airport service revenue Operating expense Accounts receivable - related parties Accounts receivable - related parties Dividends payable	20,006 3,015 26,996 564,298 1,714 331,672 3,391 122,451	The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions	0.03 - 0.04 0.82 - 0.15 - 0.06
4	Cal-Dynasty International	China Airlines, Ltd.	b	Operating revenue	29,001	The same as ordinary transactions	0.04
5	Sabre Travel Network Taiwan	China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd.	b b b b b b b b b	Service revenue Operating expense Interest revenue Accounts receivable - related parties Interest receivable Accounts payable - related parties Dividends payable Held-to-maturity financial assets	3,567 1,263 67 1,282 67 590 172,566 50,000	The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions	0.01 - - - - - 0.08 0.02
6	Taiwan Airport Services	China Airlines, Ltd. Mandarin Airlines China Airlines, Ltd. China Airlines, Ltd. Mandarin Airlines China Airlines, Ltd. China Airlines, Ltd. Mandarin Airlines	b c b b c b b c	Operating revenue Operating revenue Operating expense Accounts receivable - related parties Accounts receivable - related parties Accounts payable - related parties Dividends payable Dividends payable	189,674 51,941 5,886 62,881 12,761 1,005 52,389 1,192	The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions	0.28 0.08 0.01 0.03 0.01 - - -
7	Hwa Hsia	China Airlines, Ltd. Taiwan Air Cargo Terminal China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd.	b c b b b	Operating revenue Operating revenue Operating expense Accounts receivable - related parties Dividends payable	143,447 5,476 4,636 2,263 16,536	The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions	0.21 0.01 0.01 - 0.01
8	Dynasty Holidays	China Airlines, Ltd. China Airlines, Ltd.	b b	Operating revenue Operating expense	24,213 863	The same as ordinary transactions The same as ordinary transactions	0.04 -
9	Global Sky Express	China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd. China Airlines, Ltd.	b b b b	Operating costs Operating expense Accounts payable - related parties Dividends payable	40,976 1,255 2,971 1,925	The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions The same as ordinary transactions	0.06 - - -

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
10	Yestrip	China Airlines, Ltd.	b	Operating revenue	\$ 3,323	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Operating expense	2,733	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts receivable - related parties	724	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	15,695	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	108,605	The same as ordinary transactions	0.16
		Cal Hotel	c	Operating revenue	41,128	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Accounts receivable - related parties	199,109	The same as ordinary transactions	0.09
12	Cal Hotel	China Airlines, Ltd.	b	Operating revenue	89,580	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Operating expense	2,891	The same as ordinary transactions	-
		Cal Park	c	Operating costs	41,128	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Accounts receivable - related parties	19,611	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts payable - related parties	507	The same as ordinary transactions	-
13	Tigerair Taiwan	China Airlines, Ltd.	b	Operating expense	123,473	The same as ordinary transactions	0.18
		China Airlines, Ltd.	b	Accounts payable - related parties	64,745	The same as ordinary transactions	0.03
		China Airlines, Ltd.	b	Passenger revenue	10,985	The same as ordinary transactions	0.02
		Taoyuan International Airport Services	c	Terminal and landing fees	26,996	The same as ordinary transactions	0.04
		Mandarin Airlines	c	Operating expense	2,101	The same as ordinary transactions	-
		Mandarin Airlines	c	Accounts payable - related parties	9,382	The same as ordinary transactions	0.01
14	Taiwan Aircraft Maintenance and Engineering	China Airlines, Ltd.	b	Operating expense	6,723	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts payable - related parties	875	The same as ordinary transactions	-

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

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

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

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