

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2014 (Reviewed)		December 31, 2013 (Audited)		June 30, 2013 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 19,039,082	9	\$ 19,007,649	9	\$ 15,840,849	7
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	103,901	-	215,673	-	417,820	-
Available-for-sale financial assets - current (Notes 4, 8 and 31)	95,939	-	75,504	-	58,105	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 31)	87,325	-	135,003	-	112,104	-
Receivables:						
Notes and accounts, net (Notes 4, 5 and 11)	7,934,950	4	7,774,730	4	7,721,285	4
Notes and accounts - related parties (Note 32)	7,693	-	14,517	-	12,768	-
Other receivables	564,888	-	587,665	-	690,995	-
Current tax assets (Notes 4 and 27)	13,140	-	16,959	-	12,341	-
Inventories, net (Notes 4 and 12)	6,745,445	3	6,791,453	3	6,472,789	3
Other assets - current (Notes 6 and 17)	3,190,065	1	2,465,919	1	2,726,089	1
Total current assets	37,782,428	17	37,085,072	17	34,065,145	15
NONCURRENT ASSETS						
Available-for-sale financial assets - noncurrent (Notes 4, 8 and 31)	26,276	-	28,768	-	30,240	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 31)	1,986	-	5,617	-	4,346	-
Financial assets carried at cost - noncurrent (Notes 10 and 31)	464,215	-	468,476	-	467,548	-
Investments accounted for by the equity method (Notes 4 and 13)	2,778,096	1	2,687,755	1	2,636,253	1
Property, plant and equipment (Notes 4, 5, 14 and 33)	144,530,626	65	149,662,068	68	155,704,856	71
Investment properties (Notes 4 and 15)	2,076,600	1	2,076,740	1	1,497,864	1
Other intangible assets (Notes 4 and 16)	615,954	-	489,412	-	434,330	-
Deferred income tax asset (Notes 4, 5 and 27)	8,207,940	4	9,127,014	4	10,004,582	5
Other assets - noncurrent (Notes 17, 33 and 34)	26,023,470	12	19,344,977	9	15,049,100	7
Total noncurrent assets	184,725,163	83	183,890,827	83	185,829,119	85
TOTAL	\$ 222,507,591	100	\$ 220,975,899	100	\$ 219,894,264	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 18)	\$ 3,969,209	2	\$ 204,036	-	\$ 5,625,000	3
Short-term notes and bills payable (Note 18)	1,823,184	1	-	-	849,720	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	22,109	-	2,799	-	22	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 31)	22,993	-	22,853	-	90,332	-
Notes and accounts payable	772,083	-	779,176	-	412,684	-
Notes and accounts payable - related parties (Note 32)	451,437	-	432,535	-	432,543	-
Other payable (Note 21)	14,295,705	7	14,339,082	7	12,827,957	6
Current tax liabilities (Notes 4 and 27)	73,536	-	88,927	-	64,615	-
Deferred revenue - current (Notes 4, 5 and 22)	9,527,086	4	8,850,384	4	8,357,756	4
Bonds payable - current portion (Notes 19 and 31)	8,585,000	4	4,780,000	2	4,780,000	2
Loans and debts - current portion (Notes 18, 31 and 33)	18,327,239	8	25,265,961	12	16,732,471	8
Capital lease obligations - current portion (Note 4, 20, 31 and 33)	3,882,755	2	4,399,039	2	4,835,532	2
Other current liabilities (Note 26)	4,300,369	2	2,741,236	1	2,769,486	1
Total current liabilities	66,052,705	30	61,906,028	28	57,778,118	26
NONCURRENT LIABILITIES						
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 31)	2,685	-	2,026	-	5,200	-
Bonds payable - noncurrent (Notes 19 and 31)	18,832,818	8	27,368,023	12	21,885,000	10
Loans and debts - noncurrent (Notes 18, 31 and 33)	63,133,470	28	53,239,582	24	58,281,727	27
Provisions - noncurrent (Notes 4, 5 and 23)	3,376,623	2	3,302,484	2	3,668,616	2
Deferred tax liabilities (Notes 4 and 27)	417,577	-	628,820	-	1,106,728	-
Capital lease obligations - noncurrent (Notes 4, 20, 31 and 33)	7,745,791	3	8,641,834	4	11,608,019	5
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,793,301	1	1,909,749	1	2,008,073	1
Accrued pension costs (Notes 4, 5 and 24)	10,334,997	5	10,410,907	5	10,504,126	5
Other noncurrent liabilities (Note 26)	1,531,020	1	676,086	-	973,141	-
Total noncurrent liabilities	107,168,282	48	106,179,511	48	110,040,630	50
Total liabilities	173,220,987	78	168,085,539	76	167,818,748	76
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 19 and 25)						
Capital stock	52,000,000	23	52,000,000	23	52,000,000	24
Capital surplus	1,924,015	1	1,924,015	1	1,405,394	1
Accumulated deficit						
Legal reserve	-	-	321,891	-	321,891	-
Special reserve	-	-	3,926,293	2	3,926,293	2
Accumulated deficit	(6,921,599)	(3)	(7,409,299)	(3)	(7,312,747)	(4)
Total accumulated deficit	(6,921,599)	(3)	(3,161,115)	(1)	(3,064,563)	(2)
Other equity	53,053	-	86,936	-	(13,285)	-
Treasury shares	(43,372)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	47,012,097	21	50,806,464	23	50,284,174	23
NONCONTROLLING INTERESTS (Note 25)	2,274,507	1	2,083,896	1	1,791,342	1
Total equity	49,286,604	22	52,890,360	24	52,075,516	24
TOTAL	\$ 222,507,591	100	\$ 220,975,899	100	\$ 219,894,264	100

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUES (Notes 4 and 32)								
Passenger	\$ 23,621,592	64	\$ 22,159,330	65	\$ 46,710,613	65	\$ 44,258,225	66
Cargo	10,935,359	30	9,719,944	28	20,664,715	28	18,551,849	27
Others	2,390,786	6	2,308,343	7	4,819,282	7	4,453,461	7
Total revenues	<u>36,947,737</u>	<u>100</u>	<u>34,187,617</u>	<u>100</u>	<u>72,194,610</u>	<u>100</u>	<u>67,263,535</u>	<u>100</u>
COSTS (Notes 9, 12, 26, 32 and 34)								
Flight operations	23,621,149	64	21,241,133	62	46,590,396	65	42,581,647	63
Terminal and landing fees	5,094,837	14	4,592,269	13	9,911,578	14	9,078,052	14
Passenger services	2,357,492	6	2,196,193	6	4,660,232	6	4,354,687	6
Aircraft maintenance	1,775,365	5	1,729,870	5	3,520,186	5	3,369,206	5
Others	1,459,997	4	1,544,645	5	3,199,343	4	3,053,397	5
Total costs	<u>34,308,840</u>	<u>93</u>	<u>31,304,110</u>	<u>91</u>	<u>67,881,735</u>	<u>94</u>	<u>62,436,989</u>	<u>93</u>
GROSS PROFIT	<u>2,638,897</u>	<u>7</u>	<u>2,883,507</u>	<u>9</u>	<u>4,312,875</u>	<u>6</u>	<u>4,826,546</u>	<u>7</u>
OPERATING EXPENSES (Note 26)								
Marketing and selling	1,902,147	5	1,866,170	6	3,519,471	5	3,590,711	5
General and administrative	936,122	3	836,525	2	1,865,815	2	1,714,237	3
Total operating expenses	<u>2,838,269</u>	<u>8</u>	<u>2,702,695</u>	<u>8</u>	<u>5,385,286</u>	<u>7</u>	<u>5,304,948</u>	<u>8</u>
OPERATING INCOME (LOSS)	<u>(199,372)</u>	<u>(1)</u>	<u>180,812</u>	<u>1</u>	<u>(1,072,411)</u>	<u>(1)</u>	<u>(478,402)</u>	<u>(1)</u>
NONOPERATING INCOME								
Other income (Notes 15 and 26)	338,958	1	204,432	1	630,487	1	480,742	1
Other gains and losses (Notes 9 and 26)	(128,021)	-	16,347	-	(1,674,414)	(2)	(194,988)	-
Finance cost (Notes 9, 26 and 32)	(511,709)	(1)	(532,322)	(2)	(1,018,658)	(2)	(1,089,647)	(2)
Share of the profit of associates and joint ventures (Note 13)	140,381	-	110,050	-	263,308	-	211,272	-
Total nonoperating income	<u>(160,391)</u>	<u>-</u>	<u>(201,493)</u>	<u>(1)</u>	<u>(1,799,277)</u>	<u>(3)</u>	<u>(592,621)</u>	<u>(1)</u>
PRETAX LOSS	<u>(359,763)</u>	<u>(1)</u>	<u>(20,681)</u>	<u>-</u>	<u>(2,871,688)</u>	<u>(4)</u>	<u>(1,071,023)</u>	<u>(2)</u>
INCOME TAX EXPENSE (Notes 4, 5 and 27)	<u>599,776</u>	<u>2</u>	<u>50,732</u>	<u>-</u>	<u>790,282</u>	<u>1</u>	<u>100,646</u>	<u>-</u>
NET LOSS	<u>(959,539)</u>	<u>(3)</u>	<u>(71,413)</u>	<u>-</u>	<u>(3,661,970)</u>	<u>(5)</u>	<u>(1,171,669)</u>	<u>(2)</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Exchange differences on translating foreign operations (Notes 4 and 25)	(45,805)	-	21,424	-	(10,815)	-	69,811	-
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 25)	3,213	-	(6,468)	-	17,944	-	(11,818)	-
Cash flow hedges (Notes 4 and 25)	40,045	-	(36,996)	-	(52,253)	-	1,715	-

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Share of other comprehensive loss of associates and joint ventures (Notes 4 and 25)	(72)	-	(766)	-	(448)	-	(1,029)	-
Income tax relating to components of other comprehensive income (Note 27)	<u>220</u>	-	<u>4,122</u>	-	<u>7,722</u>	-	<u>(10,390)</u>	-
Other comprehensive income for the year, net of income tax	<u>(2,399)</u>	-	<u>(18,684)</u>	-	<u>(37,850)</u>	-	<u>48,289</u>	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (961,938)</u>	<u>(3)</u>	<u>\$ (90,097)</u>	<u>-</u>	<u>\$ (3,699,820)</u>	<u>(5)</u>	<u>\$ (1,123,380)</u>	<u>(2)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Owner of the Company	\$ (1,033,556)	(3)	\$ (116,232)	-	\$ (3,760,484)	(5)	\$ (1,222,875)	(2)
Non-controlling interests	<u>74,017</u>	-	<u>44,819</u>	-	<u>98,514</u>	-	<u>51,206</u>	-
	<u>\$ (959,539)</u>	<u>(3)</u>	<u>\$ (71,413)</u>	<u>-</u>	<u>\$ (3,661,970)</u>	<u>(5)</u>	<u>\$ (1,171,669)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owner of the Company	\$ (1,032,255)	(3)	\$ (138,650)	-	\$ (3,794,367)	(5)	\$ (1,175,598)	(2)
Non-controlling interests	<u>70,317</u>	-	<u>48,553</u>	-	<u>94,547</u>	-	<u>52,218</u>	-
	<u>\$ (961,938)</u>	<u>(3)</u>	<u>\$ (90,097)</u>	<u>-</u>	<u>\$ (3,699,820)</u>	<u>(5)</u>	<u>\$ (1,123,380)</u>	<u>(2)</u>
LOSS PER SHARE (NEW TAIWAN DOLLARS; Note 28)								
Basic	<u>\$ (0.20)</u>		<u>\$ (0.03)</u>		<u>\$ (0.72)</u>		<u>\$ (0.24)</u>	

(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 (Note 25)	Capital Surplus (Notes 18 and 25)	Retained Earning (Notes 24 and 25)			Other Equity (Note 25)				Non-Controlling Interests (Note 25)	Total Equity	
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries			Total
BALANCE AT JANUARY 1, 2013	\$ 52,000,000	\$ 1,405,394	\$ 316,010	\$ 3,873,369	\$ (6,031,067)	\$ (60,381)	\$ (16,666)	\$ 16,485	\$ (43,372)	\$ 51,459,772	\$ 1,831,137	\$ 53,290,909
Appropriations of the 2012 earnings												
Legal reserve	-	-	5,881	-	(5,881)	-	-	-	-	-	-	-
Special reserve	-	-	-	52,924	(52,924)	-	-	-	-	-	-	-
Net income (loss) for the six months ended June 30, 2013	-	-	-	-	(1,222,875)	-	-	-	-	(1,222,875)	51,206	(1,171,669)
Other comprehensive income for the six months ended June 30, 2013, net of income tax	-	-	-	-	-	55,109	(9,255)	1,423	-	47,277	1,012	48,289
Total comprehensive income (loss) for the six months ended June 30, 2013	-	-	-	-	(1,222,875)	55,109	(9,255)	1,423	-	(1,175,598)	52,218	(1,123,380)
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(92,013)	(92,013)
BALANCE AT JUNE 30, 2013	<u>\$ 52,000,000</u>	<u>\$ 1,405,394</u>	<u>\$ 321,891</u>	<u>\$ 3,926,293</u>	<u>\$ (7,312,747)</u>	<u>\$ (5,272)</u>	<u>\$ (25,921)</u>	<u>\$ 17,908</u>	<u>\$ (43,372)</u>	<u>\$ 50,284,174</u>	<u>\$ 1,791,342</u>	<u>\$ 52,075,516</u>
BALANCE AT JANUARY 1, 2014	\$ 52,000,000	\$ 1,924,015	\$ 321,891	\$ 3,926,293	\$ (7,409,299)	\$ 1,843	\$ (11,486)	\$ 96,579	\$ (43,372)	\$ 50,806,464	\$ 2,083,896	\$ 52,890,360
Accumulated deficit offset by reserve												
Legal reserve	-	-	(321,891)	-	321,891	-	-	-	-	-	-	-
Special reserve	-	-	-	(3,926,293)	3,926,293	-	-	-	-	-	-	-
Net income (loss) for the six months ended June 30, 2014	-	-	-	-	(3,760,484)	-	-	-	-	(3,760,484)	98,514	(3,661,970)
Other comprehensive income for the six months ended June 30, 2014, net of income tax	-	-	-	-	-	(5,938)	15,425	(43,370)	-	(33,883)	(3,967)	(37,850)
Total comprehensive income (loss) for the six months ended June 30, 2014	-	-	-	-	(3,760,484)	(5,938)	15,425	(43,370)	-	(3,794,367)	94,547	(3,699,820)
Issue of common shares for cash from subsidiaries	-	-	-	-	-	-	-	-	-	-	200,000	200,000
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(103,936)	(103,936)
BALANCE AT JUNE 30, 2014	<u>\$ 52,000,000</u>	<u>\$ 1,924,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,921,599)</u>	<u>\$ (4,095)</u>	<u>\$ 3,939</u>	<u>\$ 53,209</u>	<u>\$ (43,372)</u>	<u>\$ 47,012,097</u>	<u>\$ 2,274,507</u>	<u>\$ 49,286,604</u>

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	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,871,688)	\$ (1,071,023)
Adjustments to reconcile net loss to net cash generated from (used in) operating activities:		
Depreciation expenses	8,667,215	8,625,147
Amortization expenses	26,618	25,424
Bad-debt expense	88	99
Net loss on fair value change of financial liabilities held for trading	19,310	22
Net gain on fair value change of financial assets held for trading	(14,018)	(135,683)
Interest income	(238,810)	(161,365)
Dividend income	(27,964)	(3,180)
Share of profit of associates and joint ventures	(263,308)	(211,272)
Gain on disposal of property, plant and equipment	(27,101)	(4,061)
Gain on disposal of investments accounted for by the cost method	(2,550)	-
Loss on inventories and property, plant and equipment	292,141	188,140
Net loss (gain) on foreign currency exchange	137,610	413,452
Finance costs	1,018,658	1,089,647
Recognition of provisions	602,330	488,770
Amortization of unrealized gain on sale-leaseback	(7,256)	(7,256)
Amortization of deferred credits	(2,862)	(28,329)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	125,790	1,209,209
Decrease (increase) in notes and accounts receivable	(271,263)	(130,991)
Increase in accounts receivable - related parties	(77,273)	(88,061)
Decrease (increase) in other receivables	(228,447)	(127,415)
Decrease (increase) in inventories	53,796	338,097
Decrease (increase) in other current assets	(786,899)	942,903
Increase (decrease) in notes and accounts payable	(18,620)	14,689
Increase in accounts payable - related parties	191,754	21,395
Increase (decrease) in other payables	1,949,874	1,490,414
Increase (decrease) in deferred revenue	560,173	160,062
Decrease in provisions	(545,217)	(257,883)
Increase in other current liabilities	1,410,551	301,313
Decrease in accrued pension liabilities	(85,284)	(72,534)
Increase (decrease) in other liabilities	(465,282)	11,546
Cash generated from operations	9,122,066	13,021,276
Interest received	247,065	151,390
Dividend received	42,656	50,261
Interest paid	(1,010,657)	(1,023,892)
Income tax paid	(18,138)	(59,745)
Net cash generated from operating activities	<u>8,382,992</u>	<u>12,139,290</u>

(Continued)

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	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investments accounted for by the cost method	4,616	-
Acquisition of property, plant and equipment	(3,305,738)	(3,337,487)
Proceeds from disposal of property, plant and equipment	37,605	18,795
Increase in refundable deposits	(174,186)	(42,633)
Decrease in refundable deposits	202,333	309,540
Increase in prepayment to equipment	(7,407,051)	(3,260,239)
Increase in computer software cost	(153,160)	(34,754)
Decrease in restricted assets	<u>202,019</u>	<u>38,138</u>
Net cash used in investing activities	<u>(10,593,562)</u>	<u>(6,308,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of issue of common shares to non-controlling interest	200,000	-
Increase short-term loans	6,918,912	4,025,000
Decrease short-term loans	(3,095,000)	-
Increase short-term notes and bills payable	1,823,184	849,720
Issue of bonds payable	-	10,900,000
Repayments of bonds payable	(4,780,000)	(5,460,000)
Issue of long-term debts and capital lease obligations	11,789,343	1,140,000
Repayments of long-term debts and capital lease obligations	(10,336,437)	(12,399,252)
Proceeds of guarantee deposits received	104,527	119,217
Refund of guarantee deposits received	(135,501)	(70,589)
Cash dividend paid to non-controlling interest	<u>(103,936)</u>	<u>(92,013)</u>
Net cash generated from (used in) financing activities	<u>2,385,092</u>	<u>(987,917)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(143,089)</u>	<u>166,985</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,433	5,009,718
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>19,007,649</u>	<u>10,831,131</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 19,039,082</u>	<u>\$ 15,840,849</u>

(Concluded)