

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 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 September 30, 2016 and 2015, and the related consolidated statements of comprehensive income, for the three months ended and the nine months ended September 30, 2016 and 2015, and the changes in equity and cash flows for the nine months ended September 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 September 30, 2016 and 2015, total combined assets of these non-significant subsidiaries were NT\$14,629,533 thousand and NT\$15,452,440 thousand, respectively, representing 6.76% and 6.88%, respectively, of the total consolidated assets, and total combined liabilities of these subsidiaries were NT\$6,692,131 thousand and NT\$6,728,848 thousand, respectively, representing 4.27% and 4.11%, respectively, of the total consolidated liabilities; for the three months ended and the nine months ended September 30, 2016 and 2015, the amounts of combined comprehensive income of these subsidiaries were NT\$165,207 thousand, NT\$348,040 thousand, NT\$618,764 thousand and NT\$699,771 thousand, respectively, representing 32.52%, 12.74%, 32.41% and 9.75%, respectively, of the consolidated total comprehensive income. As of September 30, 2016 and 2015, investments accounted for by the equity method were NT\$2,809,980 thousand and NT\$2,787,227 thousand, respectively; for the three months ended and the nine months ended September 30, 2016 and 2015, the amounts of the Group's share of the profit of associates and joint ventures were NT\$138,821 thousand, NT\$141,035 thousand, NT\$397,508 thousand and NT\$389,920 thousand, respectively.

Based on our reviews, except for the effects of adjustments, if any, as might have been determined to be necessary had the financial statements of the 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.

November 10, 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 review such consolidated financial statements are those generally applied in the Republic of China.

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2016 (Reviewed)		December 31, 2015 (Audited)		September 30, 2015 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6 and 19)	\$ 22,192,084	10	\$ 23,491,085	11	\$ 24,481,251	11
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	437,847	-	542,326	-	409,818	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)	7,017	-	52,582	-	76,719	-
Receivables:						
Notes and accounts, net (Notes 4, 5 and 11)	7,154,355	3	7,610,677	3	7,568,642	4
Notes and accounts - related parties (Note 33)	3,955	-	3,874	-	4,862	-
Other receivables	1,037,262	1	1,032,622	1	716,844	-
Current tax assets (Notes 4 and 29)	50,218	-	9,849	-	60,349	-
Inventories, net (Notes 4 and 12)	8,361,307	4	8,300,398	4	7,799,758	4
Noncurrent assets held for sale (Notes 4, 5 and 13)	121,406	-	670,455	-	670,455	-
Other assets - current (Notes 6 and 19)	4,032,780	2	3,928,747	2	3,030,433	1
Total current assets	43,398,231	20	45,642,615	21	44,819,131	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)	14,099	-	19,080	-	15,403	-
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)	140,603	-	223,911	-	367,357	-
Investments accounted for by the equity method (Notes 4 and 15)	2,809,980	1	2,877,777	1	2,787,227	1
Property, plant and equipment (Notes 4, 5, 16 and 34)	128,208,152	59	129,628,866	58	132,189,152	59
Investment properties (Notes 4 and 17)	2,075,972	1	2,076,182	1	2,076,251	1
Other intangible assets (Notes 4 and 18)	1,148,515	1	1,009,678	1	896,575	1
Deferred income tax asset (Notes 4, 5 and 29)	6,462,820	3	7,188,415	3	7,095,593	3
Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)	32,313,108	15	33,246,859	15	34,206,086	15
Total noncurrent assets	173,173,249	80	176,283,694	79	179,633,644	80
TOTAL	\$ 216,571,480	100	\$ 221,926,309	100	\$ 224,452,775	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 20)	\$ 208,135	-	\$ 173,289	-	\$ 225,145	-
Short-term bills payable (Note 20)	-	-	9,995	-	9,963	-
Financial liability at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	5,419	-	-	-	-	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)	237,253	-	313,689	-	245,335	-
Notes and accounts payable	1,486,299	1	1,229,575	1	1,786,768	1
Notes and accounts payable - related parties (Note 33)	517,401	-	493,754	-	497,233	-
Other payable (Note 23)	11,343,881	5	12,296,548	5	11,849,661	6
Current tax liabilities (Notes 4 and 29)	120,995	-	75,645	-	107,524	-
Provisions - current (Notes 4, 5 and 25)	35,497	-	20,186	-	19,874	-
Deferred revenue - current (Notes 4, 5 and 24)	12,784,380	6	13,112,086	6	11,284,169	5
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32)	5,279,164	2	4,944,106	2	2,400,000	1
Loans and debts - current portion (Notes 20, 32 and 34)	27,949,134	13	30,092,112	14	27,256,465	12
Capital lease obligations - current portion (Notes 4, 22, 32 and 34)	1,457,957	1	1,457,957	1	2,208,966	1
Other current liabilities	3,291,300	2	4,001,510	2	4,345,637	2
Total current liabilities	64,716,815	30	68,220,452	31	62,236,740	28
NONCURRENT LIABILITIES						
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)	-	-	11,291	-	12,065	-
Bonds payable - noncurrent (Notes 4, 21, 27 and 32)	17,900,000	8	10,900,000	5	13,432,442	6
Loans and debts - noncurrent (Notes 20, 32 and 34)	53,278,932	25	57,691,505	26	64,360,017	29
Provisions - noncurrent (Notes 4, 5 and 25)	7,096,907	3	6,167,295	3	5,661,411	3
Deferred tax liabilities (Notes 4 and 29)	302,914	-	340,681	-	399,614	-
Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)	4,098,317	2	5,197,147	2	5,562,775	2
Deferred revenue - noncurrent (Notes 4, 5 and 24)	1,802,227	1	1,863,929	1	1,825,118	1
Accrued pension costs (Notes 4, 5 and 26)	7,202,558	3	10,553,574	5	9,984,500	4
Other noncurrent liabilities	425,485	-	423,892	-	438,313	-
Total noncurrent liabilities	92,107,340	42	93,149,314	42	101,676,255	45
Total liabilities	156,824,155	72	161,369,766	73	163,912,995	73
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)						
Capital stock	54,708,901	25	54,708,901	25	54,708,901	25
Capital surplus	799,932	1	798,415	-	798,351	-
Retained earnings:						
Legal reserve	287,224	-	-	-	-	-
Special reserve	76,486	-	-	-	-	-
Unappropriated retained earnings	1,802,594	1	2,872,235	1	2,741,764	1
Total retained earnings	2,166,304	1	2,872,235	1	2,741,764	1
Other equity	(146,098)	-	(66,283)	-	7,201	-
Treasury shares	(43,372)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	57,485,667	27	58,269,896	26	58,212,845	26
NON-CONTROLLING INTERESTS (Note 27)	2,261,658	1	2,286,647	1	2,326,935	1
Total equity	59,747,325	28	60,556,543	27	60,539,780	27
TOTAL	\$ 216,571,480	100	\$ 221,926,309	100	\$ 224,452,775	100

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

(With Deloitte & Touche review report dated November 10, 2016)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUES (Notes 4, 28 and 33)	\$ 36,552,871	100	\$ 37,089,144	100	\$ 105,386,860	100	\$ 109,874,296	100
COSTS (Notes 9, 12, 25, 26, 28 and 33)	<u>31,627,877</u>	<u>86</u>	<u>31,798,540</u>	<u>86</u>	<u>90,834,028</u>	<u>86</u>	<u>94,302,310</u>	<u>86</u>
GROSS PROFIT	4,924,994	14	5,290,604	14	14,552,832	14	15,571,986	14
OPERATING EXPENSES (Notes 26 and 28)	<u>3,499,398</u>	<u>10</u>	<u>3,002,563</u>	<u>8</u>	<u>10,135,114</u>	<u>10</u>	<u>9,117,046</u>	<u>8</u>
OPERATING PROFIT	<u>1,425,596</u>	<u>4</u>	<u>2,288,041</u>	<u>6</u>	<u>4,417,718</u>	<u>4</u>	<u>6,454,940</u>	<u>6</u>
NONOPERATING INCOME AND EXPENSES								
Other income (Note 28)	181,036	-	2,221,936	6	582,686	1	2,939,347	3
Other gains and losses (Notes 9, 10, 13, 28 and 36)	(418,914)	(1)	(1,509,840)	(4)	(1,543,317)	(1)	(1,932,784)	(2)
Finance cost (Notes 9 and 28)	(303,921)	(1)	(444,256)	(1)	(978,558)	(1)	(1,392,611)	(1)
Share of the profit of associates and joint ventures (Note 15)	<u>138,821</u>	<u>-</u>	<u>141,035</u>	<u>-</u>	<u>397,508</u>	<u>-</u>	<u>389,920</u>	<u>-</u>
Total nonoperating income and expenses	<u>(402,978)</u>	<u>(2)</u>	<u>408,875</u>	<u>1</u>	<u>(1,541,681)</u>	<u>(1)</u>	<u>3,872</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,022,618	2	2,696,916	7	2,876,037	3	6,458,812	6
INCOME TAX EXPENSE (Notes 4, 5 and 29)	<u>435,737</u>	<u>1</u>	<u>483,642</u>	<u>1</u>	<u>876,968</u>	<u>1</u>	<u>1,195,023</u>	<u>1</u>
NET INCOME	<u>586,881</u>	<u>1</u>	<u>2,213,274</u>	<u>6</u>	<u>1,999,069</u>	<u>2</u>	<u>5,263,789</u>	<u>5</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)	(72,231)	-	145,053	-	(130,588)	-	93,243	-
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 27)	(637)	-	(4,079)	-	(8,934)	-	(13,479)	-
Cash flow hedges (Notes 4 and 27)	(16,623)	-	484,027	1	42,193	-	2,227,809	2
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 27)	-	-	(182)	-	-	-	(182)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	<u>10,568</u>	<u>-</u>	<u>(106,498)</u>	<u>-</u>	<u>7,658</u>	<u>-</u>	<u>(395,139)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(78,923)</u>	<u>-</u>	<u>518,321</u>	<u>1</u>	<u>(89,671)</u>	<u>-</u>	<u>1,912,252</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 507,958</u>	<u>1</u>	<u>\$ 2,731,595</u>	<u>7</u>	<u>\$ 1,909,398</u>	<u>2</u>	<u>\$ 7,176,041</u>	<u>7</u>

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
NET INCOME								
ATTRIBUTABLE TO:								
Owner of the Company	\$ 513,429	2	\$ 2,133,705	6	\$ 1,807,768	2	\$ 5,100,661	5
Non-controlling interests	<u>73,452</u>	-	<u>79,569</u>	-	<u>191,301</u>	-	<u>163,128</u>	-
	<u>\$ 586,881</u>	<u>2</u>	<u>\$ 2,213,274</u>	<u>6</u>	<u>\$ 1,999,069</u>	<u>2</u>	<u>\$ 5,263,789</u>	<u>5</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owner of the Company	\$ 441,067	1	\$ 2,645,081	7	\$ 1,727,953	2	\$ 7,013,560	7
Non-controlling interests	<u>66,891</u>	-	<u>86,514</u>	-	<u>181,445</u>	-	<u>162,481</u>	-
	<u>\$ 507,958</u>	<u>1</u>	<u>\$ 2,731,595</u>	<u>7</u>	<u>\$ 1,909,398</u>	<u>2</u>	<u>\$ 7,176,041</u>	<u>7</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 30)								
Basic	<u>\$ 0.09</u>		<u>\$ 0.39</u>		<u>\$ 0.33</u>		<u>\$ 0.94</u>	
Diluted	<u>\$ 0.09</u>		<u>\$ 0.38</u>		<u>\$ 0.32</u>		<u>\$ 0.90</u>	

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

(With Deloitte & Touche review report dated November 10, 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											
	Retained Earnings				Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale	Cash Flow Hedge	Treasury Shares	Total	Non-controlling	Total Equity
	Share Capital	Capital Surplus	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>-</u>	<u>-</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	2,217,235	317,889	-	-	-	-	-	-	-	2,535,124	-	2,535,124
Compensation of deficit - capital surplus for 2014	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-	-	-
Differences between cost and net value from acquiring subsidiaries	-	-	-	-	(114)	-	-	-	-	(114)	(230)	(344)
Net income for the nine months ended September 30, 2015	-	-	-	-	5,100,661	-	-	-	-	5,100,661	163,128	5,263,789
Other comprehensive income (loss) for the nine months ended September 30, 2015, net of income tax	-	-	-	-	-	70,820	(6,564)	1,848,643	-	1,912,899	(647)	1,912,252
Total comprehensive income (loss) for the nine months ended September 30, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,100,661</u>	<u>70,820</u>	<u>(6,564)</u>	<u>1,848,643</u>	<u>-</u>	<u>7,013,560</u>	<u>162,481</u>	<u>7,176,041</u>
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(157,053)	(157,053)
BALANCE AT SEPTEMBER 30, 2015	<u>\$ 54,708,901</u>	<u>\$ 798,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,741,764</u>	<u>\$ 170,672</u>	<u>\$ (2,549)</u>	<u>\$ (160,922)</u>	<u>\$ (43,372)</u>	<u>\$ 58,212,845</u>	<u>\$ 2,326,935</u>	<u>\$ 60,539,780</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 unappropriated earnings 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 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517	-	1,517
Net income for the nine months ended September 30, 2016	-	-	-	-	1,807,768	-	-	-	-	1,807,768	191,301	1,999,069
Other comprehensive loss for the nine months ended September 30, 2016, net of income tax	-	-	-	-	-	(107,804)	(2,359)	30,348	-	(79,815)	(9,856)	(89,671)
Total comprehensive income (loss) for the nine months ended September 30, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,807,768</u>	<u>(107,804)</u>	<u>(2,359)</u>	<u>30,348</u>	<u>-</u>	<u>1,727,953</u>	<u>181,445</u>	<u>1,909,398</u>
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(201,886)	(201,886)
BALANCE AT SEPTEMBER 30, 2016	<u>\$ 54,708,901</u>	<u>\$ 799,932</u>	<u>\$ 287,224</u>	<u>\$ 76,486</u>	<u>\$ 1,802,594</u>	<u>\$ 50,155</u>	<u>\$ (604)</u>	<u>\$ (195,649)</u>	<u>\$ (43,372)</u>	<u>\$ 57,485,667</u>	<u>\$ 2,261,658</u>	<u>\$ 59,747,325</u>

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

(With Deloitte & Touche review report dated November 10, 2016)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,876,037	\$ 6,458,812
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	13,002,138	13,052,784
Amortization expenses	92,197	49,740
Bad-debt expense	13,943	35,621
Net loss (gain) on fair value change of financial assets and liabilities held for trading	30,580	(148,628)
Interest income	(193,002)	(343,536)
Dividend income	(59,927)	(1,883,736)
Share of profit of associates and joint ventures	(397,508)	(389,920)
Gain on disposal of property, plant and equipment	(11,337)	(8,078)
Loss on disposal of financial assets measured at cost	346	-
Loss on disposal of noncurrent assets held for sale	26,429	-
Impairment loss on financial assets measured at cost	71,826	-
Loss on disposal of available-for-sale financial assets	12	-
Loss on inventory, property, plant, equipment and noncurrent assets held for sale	496,002	2,131,104
Net (gain) loss on foreign currency exchange	(43,618)	294,172
Finance costs	978,558	1,392,611
Recognition of provisions	1,908,338	1,495,803
Amortization of unrealized gain on sale-leaseback	(10,884)	(10,884)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	75,416	4,625
Decrease in derivatives financial assets for hedging	13,096	-
Decrease in notes and accounts receivable	186,095	1,709,854
(Increase) decrease in accounts receivable - related parties	(69,169)	315,888
Decrease in other receivables	45,003	203,181
Increase in inventories	(210,303)	(678,480)
Increase in other current assets	(152,009)	(521,572)
Increase in notes and accounts payable	325,835	1,397,202
Increase (decrease) in accounts payable - related parties	134,720	(94,317)
(Decrease) increase in other payables	(997,371)	625,952
(Decrease) increase in deferred revenue	(383,111)	139,919
Decrease in provisions	(936,054)	(160,021)
Decrease in other current liabilities	(630,705)	(174,816)
Decrease in accrued pension liabilities	(3,363,329)	(217,469)
Decrease in other liabilities	(15,358)	(100,821)
Cash generated from operations	12,802,886	24,574,990
Interest received	150,200	339,955
Dividend received	437,812	2,332,974
Interest paid	(956,914)	(1,576,476)
Income tax paid	(166,088)	(209,736)
Net cash generated from operating activities	<u>12,267,896</u>	<u>25,461,707</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of share redemption of financial assets measured at cost	\$ -	\$ 103,975
Proceeds of derivative financial assets for hedging	-	(13,096)
Payment for property, plant and equipment	(6,625,710)	(4,292,644)
Proceeds from disposal of property, plant and equipment	17,948	13,383
Proceeds from disposal of available-for-sale financial assets	63	-
Proceeds from disposal of noncurrent assets held for sale	384,285	-
Proceeds from disposal of financial assets measured at cost	5,579	-
Increase in refundable deposits	(276,592)	(802,955)
Decrease in refundable deposits	145,051	763,812
Increase in prepayment for equipment	(9,493,653)	(11,738,052)
Refund in prepayment for aircraft	5,126,799	7,916,479
Increase in computer software cost	(231,034)	(275,309)
Decrease (increase) in restricted assets	<u>474,589</u>	<u>(150,764)</u>
Net cash used in investing activities	<u>(10,472,675)</u>	<u>(8,475,171)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	115,000	13,530,025
Decrease in short-term loans	(80,000)	(17,759,000)
Decrease in short-term bills payable	(9,995)	(1,988,138)
Proceeds from issue of bonds payable	9,700,000	-
Repayments of bonds payable	(2,400,000)	(8,585,000)
Proceeds of long-term debts and capital lease obligations	19,430,500	16,123,172
Repayments of long-term debts and capital lease obligations	(27,007,433)	(14,184,194)
Proceeds of guarantee deposits received	84,851	97,479
Refund of guarantee deposits received	(54,633)	(91,304)
Proceeds from acquisition of subsidiaries' shares	(8,084)	(344)
Dividends paid to owners of the Company	(2,508,525)	-
Cash dividends paid to non-controlling interests	<u>(201,886)</u>	<u>(157,053)</u>
Net cash used in financing activities	<u>(2,940,205)</u>	<u>(13,014,357)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(154,017)</u>	<u>40,921</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,299,001)	4,013,100
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>\$ 22,192,084</u>	<u>\$ 24,481,251</u>

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

(With Deloitte & Touche review report dated November 10, 2016)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 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 September 30, 2016, December 31, 2015 and September 30, 2015, CADF and NDF held all 43.63% of the Company’s shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on November 10, 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 for application starting from 2017

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 IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which 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 starting January 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

- 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
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarification of IFRS 15”	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

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 as discussed below, the accounting policies adopted in these consolidated financial statements are the same as those adopted in the consolidated financial statements for the year ended December 31, 2015.

Statement of Compliance

These 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 these interim consolidated financial statements is less than the 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 are presented in the consolidated balance sheets within equity, separate 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. Proportions of ownership and main businesses of subsidiaries are disclosed in Note 14 and Table 5.

Retirement Benefits

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

Taxation

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

Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss in the line item relating to the hedged item immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Material accounting judgments, estimates and assumptions adopted in these consolidated financial statements are the same as those adopted in the consolidated financial statements for the year ended December 31, 2015.

6. CASH AND CASH EQUIVALENTS

	September 30, 2016	December 31, 2015	September 30, 2015
Cash on hand and revolving fund	\$ 438,192	\$ 478,223	\$ 546,867
Checking accounts and demand deposits	7,301,543	6,070,236	8,353,214
Cash equivalent			
Time deposits with original maturities less than three months	5,667,223	16,163,452	14,536,536
Repurchase agreements collateralized by bonds	<u>8,785,126</u>	<u>779,174</u>	<u>1,044,634</u>
	<u>\$ 22,192,084</u>	<u>\$ 23,491,085</u>	<u>\$ 24,481,251</u>

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

	September 30, 2016	December 31, 2015	September 30, 2015
Bank balance	0%-1.9%	0%-1.5%	0%-2%
Time deposits with original maturities less than three months	0.3%-4.82%	0.27%-7.25%	0.4%-4.3%
Repurchase agreements collateralized by bonds	0.33%-0.95%	0.42%-0.51%	0.48%-0.65%

The amounts of time deposits with original maturities more than three months at September 30, 2016, December 31, 2015 and September 30, 2015 were \$1,393,713 thousand, \$1,653,927 thousand and \$1,587,466 thousand, respectively, and the market rate intervals were 0.21%-2.45%, 0.295%-4.1% and 0.75%-4.3%; the time deposits were recognized as other current assets. (Refer also to Note 19).

The Group designated its time deposits with original maturities less than three months and repurchase agreements collateralized by bonds as fair value hedges to hedge exchange rate exposure to the A350-900 aircraft purchase commitment. As of September 30, 2016, the book value of the hedging instrument was \$6,666,667 thousand, and the gain on fair value changes due to the fluctuations of exchange rates in the amount of \$191,121 thousand had been recognized in profit or loss for the nine months ended September 30, 2016 with corresponding adjustment to prepayments for aircraft.

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

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Financial assets held for trading - current</u>			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	\$ 1,010	\$ 63,818	\$ 164,848
Non-derivative financial assets			
Beneficial certificates	<u>436,837</u>	<u>478,508</u>	<u>244,970</u>
	<u>\$ 437,847</u>	<u>\$ 542,326</u>	<u>\$ 409,818</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 - current</u>			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	<u>\$ 5,419</u>	<u>\$ -</u>	<u>\$ -</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>September 30, 2016</u>			
Buy forward contracts	NTD/USD	2016.10.14-2017.01.26	NTD263,323/USD8,400
<u>December 31, 2015</u>			
Buy forward contracts	NTD/USD	2016.01.08-2017.01.26	NTD3,276,316/USD99,600
<u>September 30, 2015</u>			
Buy forward contracts	NTD/USD	2015.10.01-2017.01.26	NTD2,749,980/USD88,400

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>September 30, 2016</u>		<u>December 31, 2015</u>		<u>September 30, 2015</u>	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Non-current</u>						
Domestic market						
TransAsia Airways	<u>\$ 14,099</u>	-	<u>\$ 19,080</u>	-	<u>\$ 15,403</u>	-

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	September 30, 2016	December 31, 2015	September 30, 2015
Derivative financial assets under hedge accounting			
Foreign exchange forward contracts	\$ 6,818	\$ 51,060	\$ 57,470
Currency options	11	12,403	13,176
Fuel options	<u>188</u>	<u>335</u>	<u>6,073</u>
	<u>\$ 7,017</u>	<u>\$ 63,798</u>	<u>\$ 76,719</u>
Current	\$ 7,017	\$ 52,582	\$ 76,719
Non-current	<u>-</u>	<u>11,216</u>	<u>-</u>
	<u>\$ 7,017</u>	<u>\$ 63,798</u>	<u>\$ 76,719</u>

(Continued)

	September 30, 2016	December 31, 2015	September 30, 2015
Derivative financial liabilities under hedge accounting			
Interest rate swaps	\$ 6,914	\$ 12,702	\$ 12,065
Foreign exchange forward contracts	185,648	-	-
Currency options	44,684	12,660	16,916
Fuel options	<u>7</u>	<u>299,618</u>	<u>228,419</u>
	<u>\$ 237,253</u>	<u>\$ 324,980</u>	<u>\$ 257,400</u>
Current	\$ 237,253	\$ 313,689	\$ 245,335
Non-current	<u>-</u>	<u>11,291</u>	<u>12,065</u>
	<u>\$ 237,253</u>	<u>\$ 324,980</u>	<u>\$ 257,400</u>

(Concluded)

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

Cash Flow Hedge

a. Interest rate swaps

To mitigate the cash flow exposure generated by outstanding floating rate debts, all interest rate swap contracts exchanged either as fix interest rate swaps or as floating interest rate swaps are designated as cash flow hedges by the Group. 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>September 30, 2016</u>			
NT\$3,000,000	2016.11.28-2017.06.22	1.01%-1.14%	TAIBOR Rate
<u>December 31, 2015</u>			
NT\$3,000,000	2016.11.28-2017.06.22	1.01%-1.14%	TAIBOR Rate
<u>September 30, 2015</u>			
NT\$3,000,000	2016.11.28-2017.06.22	1.01%-1.14%	TAIBOR Rate

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

b. Currency options

The Group entered into contracts for currency option to minimize cash flow exposure of fluctuating foreign exchange rate relate to the fuel payments 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>September 30, 2016</u>			
Buy USD call option	JPY/USD	2016.10.12-2016.12.19	JPY1,120,340/USD9,400
Sell USD put option	JPY/USD	2016.10.12-2016.12.19	JPY1,091,095/USD9,400
<u>December 31, 2015</u>			
Buy USD call option	JPY/USD	2016.01.08-2016.12.09	JPY3,446,570/USD28,400
Sell USD put option	JPY/USD	2016.01.08-2016.12.09	JPY3,364,604/USD28,400
<u>September 30, 2015</u>			
Buy USD call option	JPY/USD	2015.10.15-2016.05.18	JPY3,319,230/USD27,300
Sell USD put option	JPY/USD	2015.10.15-2016.05.18	JPY3,241,805/USD27,300

c. Fuel options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>September 30, 2016</u>			
Buy fuel call option	USD	2016.10.31-2017.01.31	NTD188
Sell fuel put option	USD	2016.10.31-2017.01.31	NTD7
<u>December 31, 2015</u>			
Buy fuel call option	USD	2016.01.05-2016.12.07	NTD335
Sell fuel put option	USD	2016.01.05-2016.12.07	NTD299,618
<u>September 30, 2015</u>			
Buy fuel call option	USD	2015.10.13-2016.09.08	NTD6,073
Sell fuel put option	USD	2015.10.13-2016.09.08	NTD228,419

Because there were only nominal amounts of fuel options contracts, in accordance with the Derivative Instruments Trading Information issued by Taiwan Stock Exchange in respect to monthly declaration by public companies, the contract amounts were referred to the absolute value of their fair value.

d. Foreign exchange forward contracts

The Group entered into foreign exchange forward contracts to minimize the cash flow exposure of fluctuating foreign exchange rate relate to the fuel payments and aircraft leases paid in U.S. dollar.

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>September 30, 2016</u>			
Buy forward contracts	NTD/USD	2016.10.03-2018.05.22	NTD5,933,347/USD189,180
<u>December 31, 2015</u>			
Buy forward contracts	NTD/USD	2016.01.18-2017.05.23	NTD1,076,882/USD32,920
<u>September 30, 2015</u>			
Buy forward contracts	NTD/USD	2015.10.08-2017.05.23	NTD861,981/USD27,920

The gains and losses of hedging instruments for the three months ended September 30, 2016 and 2015 and nine months ended September 30, 2016 and 2015 were reclassified from equity to profit or loss and included in the following line items of consolidated statements of comprehensive income:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Increase in operating cost	\$ (20,777)	\$ (782,456)	\$ (336,674)	\$ (2,453,927)
Increase in finance cost	(2,989)	(1,494)	(6,901)	(4,530)
Other foreign exchange gain (loss)	<u>(37,018)</u>	<u>1,264</u>	<u>(53,094)</u>	<u>32,666</u>
	<u>\$ (60,784)</u>	<u>\$ (782,686)</u>	<u>\$ (396,669)</u>	<u>\$ (2,425,791)</u>

10. FINANCIAL ASSETS CARRIED AT COST

	September 30, 2016		December 31, 2015		September 30, 2015	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
Unlisted common stocks						
Everest Investment Holdings Ltd. (AH)	\$ 52,704	14	\$ 52,704	14	\$ 193,971	14
Jardine Aviation Service	56,023	15	56,023	15	56,023	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	6	75,791	6	77,480	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	20,403	5	21,995	5	22,485	5

(Continued)

	<u>September 30, 2016</u>		<u>December 31, 2015</u>		<u>September 30, 2015</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
Chung Hwa Express Co.	\$ 11,000	11	\$ 11,000	11	\$ 11,000	11
Regal International Advertising	<u>-</u>	-	<u>5,925</u>	6	<u>5,925</u>	6
	140,130		223,438		366,884	
Unlisted preferred stocks						
Everest Investment Holdings Ltd. (AH)	<u>473</u>	-	<u>473</u>	-	<u>473</u>	-
	<u>\$ 140,603</u>		<u>\$ 223,911</u>		<u>\$ 367,357</u>	
Classified according to financial asset measurement categories						
Available-for-sale financial assets	<u>\$ 140,603</u>		<u>\$ 223,911</u>		<u>\$ 367,357</u>	

(Concluded)

The Group recognized impairment loss of \$71,826 thousand for the three months and nine months ended September 30, 2016, because the value of Taikoo (Xiamen) Landing Gear Service Co., Ltd. has permanently declined, and classified as other gains (losses).

The Company and the other airlines in the Asian Region had set up Abacus International Holdings (AH company) which owned the Abacus Distributions Systems Company. Due to strategical adjustment, AH company disposed 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 Company received cash dividends of \$1,660,687 thousand and share redemption of \$245,242 thousand from AH company. AH company changes its name to Everest Investment Holdings Ltd. after the disposal of its subsidiary.

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

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
<u>Notes receivable</u>	<u>\$ 485,228</u>	<u>\$ 344,479</u>	<u>\$ 372,424</u>
<u>Accounts receivable</u>			
Accounts receivable	6,791,152	7,376,125	7,299,942
Less: Allowance for impairment loss	<u>(122,025)</u>	<u>(109,927)</u>	<u>(103,724)</u>
	<u>6,669,127</u>	<u>7,266,198</u>	<u>7,196,218</u>
	<u>\$ 7,154,355</u>	<u>\$ 7,610,677</u>	<u>\$ 7,568,642</u>

The average credit period of sales was 7 to 55 days. In determining the recoverability of 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.

Movements in the allowance for impairment loss recognized on notes receivable and accounts receivable were as follows:

	For the Nine Months Ended September 30	
	2016	2015
Beginning balance	\$ 109,927	\$ 66,131
Impairment loss recognized on receivables	13,943	35,621
Amounts written off during current period	(2,098)	(80)
Exchange influence	<u>253</u>	<u>2,052</u>
Ending balance	<u>\$ 122,025</u>	<u>\$ 103,724</u>

12. INVENTORIES

	September 30, 2016	December 31, 2015	September 30, 2015
Aircraft spare parts	\$ 7,666,251	\$ 7,648,352	\$ 7,174,378
Items for in-flight sale	529,406	507,603	486,098
Work in process - maintenance services	163,140	143,489	135,649
Others	<u>2,510</u>	<u>954</u>	<u>3,633</u>
	<u>\$ 8,361,307</u>	<u>\$ 8,300,398</u>	<u>\$ 7,799,758</u>

The operating costs recognized for the nine months ended September 30, 2016 and 2015 included loss from inventory write-downs of \$158,457 thousand and \$126,103 thousand, respectively.

The operating costs recognized for the three months ended September 30, 2016 and 2015 included loss from inventory write-downs of \$53,676 thousand and \$22,291 thousand, respectively.

13. NON-CURRENT ASSETS HELD FOR SALE

	September 30, 2016	December 31, 2015	September 30, 2015
Aircraft held for sale	<u>\$ 121,406</u>	<u>\$ 670,455</u>	<u>\$ 670,455</u>

To enhance the competitiveness, the Company planned to introduce new aircraft and retire old aircraft on a timely schedule. On August 13, 2015, the Company's board of directors resolved to sell two 747-400 aircraft and one A340-300 aircraft. These aircraft were recognized as noncurrent assets held for sale, and the difference between their original book value and the expected selling price was recognized as impairment loss of \$1,899,372 thousand. The actual amount of loss is determined based on actual selling price of the aircraft. The A340-300 aircraft was sold in June 2016 and the actual selling price and book value had a difference of \$26,429 thousand recognized as loss on sale of asset. The other two aircraft mentioned above were assessed for impairment and an impairment loss of \$138,335 thousand was

recognized based on the estimated market price. The aircraft were categorized under level 3 fair value measurement since their expected selling prices were based on the market prices of second-hand aircraft in similar condition as the two aircraft.

14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership			
			September 30, 2016	December 31, 2015	September 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	
	Dynasty Holdings	Travel business	51	51	51	
	Taoyuan International Airport Services	Airport services	49	49	49	
	Taiwan Airport Services	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
	Taiwan Airport Services	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100	100
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	

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

In view of enhancing the resources integration and management of the Group, on August 1, 2016, Hwa Hsia Co., Ltd. merged and assumed all the assets, liabilities and other rights and obligations of Hwa Shin Building Safeguard Co., Ltd, the dissolved company.

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. The financial information of the above subsidiaries for the nine months ended September 30, 2016 and 2015, which had not been reviewed except for Mandarin Airlines and Tigerair Taiwan Co., Ltd.

The Group's holding of the issued share capital of China Pacific Catering Services and China Pacific Laundry Services exceeded 50%, yet 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

	September 30, 2016	December 31, 2015	September 30, 2015
Investments in associates	\$ 2,000,345	\$ 2,010,774	\$ 1,977,588
Investments in jointly controlled entities	<u>809,635</u>	<u>867,003</u>	<u>809,639</u>
	<u>\$ 2,809,980</u>	<u>\$ 2,877,777</u>	<u>\$ 2,787,227</u>

a. The investments in associates were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Unlisted companies</u>			
China Aircraft Services	\$ 509,095	\$ 490,824	\$ 506,936
Kaohsiung Catering Services	253,363	244,903	230,132
Asian Compressor Technology Services	247,795	263,091	242,255
Science Park Logistics	248,254	185,226	180,905
Airport Air Cargo Terminal (Xiamen)	472,486	494,665	534,057
Airport Air Cargo Service (Xiamen)	227,641	226,066	245,521
Eastern United International Logistics (Holdings) Ltd.	<u>41,711</u>	<u>41,908</u>	<u>37,782</u>
	2,000,345	1,946,683	1,977,588
Prepaid long-term investment - Science Park Logistics	<u>-</u>	<u>64,091</u>	<u>-</u>
	<u>\$ 2,000,345</u>	<u>\$ 2,010,774</u>	<u>\$ 1,977,588</u>

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 the 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		
	September 30, 2016	December 31, 2015	September 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 amounts from associates accounted for using equity method were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
China Aircraft Services	\$ 10,865	\$ 14,518	\$ 40,986	\$ 37,877
Kaohsiung Catering Services	27,327	31,607	78,434	72,540
Asian Compressor Technology Services	24,489	15,428	60,389	42,065
Science Park Logistics	8,183	5,821	16,413	11,826
Airport Air Cargo Terminal (Xiamen)	6,713	3,467	12,690	10,421
Airport Air Cargo Service (Xiamen)	5,615	6,138	17,847	15,611
Eastern United International Logistics (Holdings) Ltd.	<u>2,027</u>	<u>178</u>	<u>2,964</u>	<u>4,397</u>
	<u>\$ 85,219</u>	<u>\$ 77,157</u>	<u>\$ 229,723</u>	<u>\$ 194,737</u>

The investments accounted for by the equity method, the Group's share of their profit or loss and the share of comprehensive income were based on the associates' financial statements for the nine months ended September 30, 2016 and 2015 that had not been reviewed by independent auditors.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
China Pacific Catering Services	\$ 646,277	\$ 705,134	\$ 650,352
China Pacific Laundry Services	<u>163,358</u>	<u>161,869</u>	<u>159,287</u>
	<u>\$ 809,635</u>	<u>\$ 867,003</u>	<u>\$ 809,639</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		
	September 30, 2016	December 31, 2015	September 30, 2015
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%

The Company entered into a joint venture agreement with the Taikoo Group to jointly invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have authority to veto privileged motions at the board of director's meeting, and therefore the Group does not have control.

The investment income amounts from jointly controlled entities accounted for under equity method were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
China Pacific Catering Services	\$ 48,001	\$ 59,013	\$ 152,786	\$ 176,271
China Pacific Laundry Services	<u>5,601</u>	<u>4,865</u>	<u>14,999</u>	<u>18,912</u>
	<u>\$ 53,602</u>	<u>\$ 63,878</u>	<u>\$ 167,785</u>	<u>\$ 195,183</u>

The Group's shares of other comprehensive income of associates and jointly controlled entities accounted for by the equity method in the three months ended September 30, 2016 and 2015 were \$0 thousand and \$(182) thousand, respectively, and \$0 thousand and \$(182) thousand for nine months ended September 30, 2016 and 2015, respectively.

The investments in jointly controlled entities accounted for by the equity method and the Group's shares of their profit or loss and other comprehensive income were based on the jointly controlled entities' financial statements which had not been reviewed by independent auditors.

For details on services, major business offices and the country where the above associates and jointly controlled entities registered, please refer to Table 5, "Names, Locations, And Other Information Of Investees On Which The Company Exercises Significant Influence" and Table 6, "Investments In Mainland China".

16. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Cost</u>			
Freehold land	\$ 949,089	\$ 976,427	\$ 976,427
Buildings	13,140,658	13,140,158	13,114,810
Flight equipment	237,787,465	229,849,035	229,763,814
Equipment under finance lease	28,617,154	28,087,404	28,587,309
Machinery equipment	10,231,023	9,930,186	9,853,536
Office equipment	1,063,699	1,044,598	1,020,889
Leased assets	121,918	129,372	130,530
Leasehold improvements	3,947,134	3,928,846	3,877,461
Construction in progress	<u>355,286</u>	<u>134,888</u>	<u>126,794</u>
	<u>\$ 296,213,426</u>	<u>\$ 287,220,914</u>	<u>\$ 287,451,570</u>

(Continued)

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Accumulated depreciation</u>			
Buildings	\$ 5,713,459	\$ 5,355,804	\$ 5,229,838
Flight equipment	137,448,382	128,953,990	126,889,459
Equipment under finance lease	15,405,038	14,201,904	14,136,863
Machinery equipment	6,882,676	6,598,390	6,508,661
Office equipment	876,327	839,931	818,789
Leased assets	102,342	113,276	113,901
Leasehold improvements	<u>1,577,050</u>	<u>1,528,753</u>	<u>1,564,907</u>
	<u>\$ 168,005,274</u>	<u>\$ 157,592,048</u>	<u>\$ 155,262,418</u>
Net value	<u>\$ 128,208,152</u>	<u>\$ 129,628,866</u>	<u>\$ 132,189,152</u> (Concluded)

	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	-	17,608	3,491,284	285,176	498,576	4,292,644
Disposals	-	(28,645)	(1,028,978)	(119,866)	(259,957)	(1,437,446)
Reclassification	-	1,846	(4,733,942)	(5,563,117)	69,729	(10,225,484)
Net exchange difference	<u>22,813</u>	<u>38,080</u>	<u>-</u>	<u>-</u>	<u>3,616</u>	<u>64,509</u>
Balance at September 30, 2015	<u>\$ 976,427</u>	<u>\$ 13,114,810</u>	<u>\$ 229,763,814</u>	<u>\$ 28,587,309</u>	<u>\$ 15,009,210</u>	<u>\$ 287,451,570</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ -	\$ (4,794,850)	\$ (121,645,204)	\$ (16,998,403)	\$ (8,663,824)	\$ (152,102,281)
Depreciation expense	-	(436,046)	(10,408,587)	(1,608,855)	(599,086)	(13,052,574)
Disposals	-	17,144	932,453	119,866	257,594	1,327,057
Reclassification	-	(23)	4,231,879	4,350,529	2,219	8,584,604
Net exchange difference	<u>-</u>	<u>(16,063)</u>	<u>-</u>	<u>-</u>	<u>(3,161)</u>	<u>(19,224)</u>
Balance at September 30, 2015	<u>\$ -</u>	<u>\$ (5,229,838)</u>	<u>\$ (126,889,459)</u>	<u>\$ (14,136,863)</u>	<u>\$ (9,006,258)</u>	<u>\$ (155,262,418)</u>
<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	-	49,441	5,026,019	777,700	772,550	6,625,710
Disposals	-	(1,981)	(2,754,814)	(247,950)	(218,261)	(3,223,006)
Reclassification	-	406	5,667,225	-	2,486	5,670,117
Net exchange difference	<u>(27,338)</u>	<u>(47,366)</u>	<u>-</u>	<u>-</u>	<u>(5,605)</u>	<u>(80,309)</u>
Balance at September 30, 2016	<u>\$ 949,089</u>	<u>\$ 13,140,658</u>	<u>\$ 237,787,465</u>	<u>\$ 28,617,154</u>	<u>\$ 15,719,060</u>	<u>\$ 296,213,426</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ (5,355,804)	\$ (128,953,990)	\$ (14,201,904)	\$ (9,080,350)	\$ (157,592,048)
Depreciation expense	-	(380,351)	(10,502,147)	(1,548,447)	(570,983)	(13,001,928)
Disposals	-	1,981	2,554,703	345,313	214,503	3,116,500
Reclassification	-	-	(546,948)	-	(5,349)	(552,297)
Net exchange difference	<u>-</u>	<u>20,715</u>	<u>-</u>	<u>-</u>	<u>3,784</u>	<u>24,499</u>
Balance at September 30, 2016	<u>\$ -</u>	<u>\$ (5,713,459)</u>	<u>\$ (137,448,382)</u>	<u>\$ (15,405,038)</u>	<u>\$ (9,438,395)</u>	<u>\$ (168,005,274)</u>

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 risks in the aviation industry, all of the Group's assets such as aircraft, real estate, and movable property are adequately insured to diversify the potential risk related to operation.

17. INVESTMENT PROPERTIES

	September 30, 2016	December 31, 2015	September 30, 2015
Carrying amount			
Investment properties	<u>\$ 2,075,972</u>	<u>\$ 2,076,182</u>	<u>\$ 2,076,251</u>

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

The fair value of the investment properties held by the Group was unchanged at \$2,348,759 thousand on September 30, 2016, December 31, 2015 and September 30, 2015. The above amount was 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 are 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>(210)</u>	<u>(210)</u>
Balance on September 30, 2015	<u>\$ 2,082,390</u>	<u>\$ (6,139)</u>	<u>\$ 2,076,251</u>
Balance on January 1, 2016	\$ 2,082,390	\$ (6,208)	\$ 2,076,182
Additions	<u>-</u>	<u>(210)</u>	<u>(210)</u>
Balance on September 30, 2016	<u>\$ 2,082,390</u>	<u>\$ (6,418)</u>	<u>\$ 2,075,972</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	275,309	-	275,309
Amortization expense	-	(49,740)	(49,740)
Exchange influence	<u>-</u>	<u>9</u>	<u>9</u>
Balance at September 30, 2015	<u>\$ 1,489,774</u>	<u>\$ (593,199)</u>	<u>\$ 896,575</u>
Balance at January 1, 2016	\$ 1,623,186	\$ (613,508)	\$ 1,009,678
Additions	231,034	-	231,034
Amortization expense	<u>-</u>	<u>(92,197)</u>	<u>(92,197)</u>
Balance at September 30, 2016	<u>\$ 1,854,220</u>	<u>\$ (705,705)</u>	<u>\$ 1,148,515</u>

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

19. OTHER ASSETS

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Current</u>			
Other financial assets	\$ 1,393,713	\$ 1,653,927	\$ 1,587,466
Temporary payments	1,137,769	632,661	267,093
Prepayments	1,206,491	1,146,659	998,115
Restricted assets	36,367	500	43,479
Others	<u>258,440</u>	<u>495,000</u>	<u>134,280</u>
	<u>\$ 4,032,780</u>	<u>\$ 3,928,747</u>	<u>\$ 3,030,433</u>

(Continued)

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Noncurrent</u>			
Prepayments for aircraft	\$ 26,995,647	\$ 28,714,476	\$ 29,983,618
Prepayments - long-term	3,731,180	2,522,891	2,283,992
Refundable deposits	1,554,189	1,489,112	1,354,944
Restricted assets	8,536	504,924	558,816
Other financial assets	22,297	14,144	13,753
Others	<u>1,259</u>	<u>1,312</u>	<u>10,963</u>
	<u>\$ 32,313,108</u>	<u>\$ 33,246,859</u>	<u>\$ 34,206,086</u> (Concluded)

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

The Group designated its time deposits with original maturities more than three months classified as other financial instruments as cash flow hedges to hedge exchange rate exposure to the expenditure of aircrafts rental. As of September 30, 2016, the book value of the hedging instrument was 439,068 thousand. For three months and nine months ended September 30, 2016, the losses on effective portion of cash flow hedges reclassified from equity were \$1,449 thousand, and be classified as operating cost in comprehensive income statement.

20. BORROWINGS

a. Short-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
Bank loans - unsecured	<u>\$ 208,135</u>	<u>\$ 173,289</u>	<u>\$ 225,145</u>
Interest rates	1.11%-2.83%	1.25%-1.8636%	1.39%-2.3%

b. Short-term and bills payable

	September 30, 2016	December 31, 2015	September 30, 2015
Commercial paper	\$ -	\$ 10,000	\$ 10,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>5</u>	<u>37</u>
	<u>\$ -</u>	<u>\$ 9,995</u>	<u>\$ 9,963</u>
Annual discount rate	-	1.3%	1.298%

c. Long-term debts

	September 30, 2016	December 31, 2015	September 30, 2015
Unsecured bank loans	\$ 30,732,418	\$ 31,231,342	\$ 32,367,929
Secured bank loans	16,290,334	25,342,804	28,390,464
Commercial paper			
Proceeds from issue	34,250,000	31,275,000	30,955,000
Less: Unamortized discount	<u>44,686</u>	<u>65,529</u>	<u>96,911</u>
	81,228,066	87,783,617	91,616,482
Less: Current portion	<u>27,949,134</u>	<u>30,092,112</u>	<u>27,256,465</u>
	<u>\$ 53,278,932</u>	<u>\$ 57,691,505</u>	<u>\$ 64,360,017</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>		
September 30, 2016	\$ 45,453,151	\$ 50,070
December 31, 2015	52,533,784	122,827
September 30, 2015	55,752,818	152,170
<u>Translated in New Taiwan dollars</u>		
September 30, 2016	45,453,151	1,569,601
December 31, 2015	52,533,784	4,040,362
September 30, 2015	55,752,818	5,005,575
<u>Interest rates</u>		
September 30, 2016	0.55%-1.945%	0.8539%-4.39%
December 31, 2015	1.1432%-2.613%	0.4067%-4.39%
September 30, 2015	1.2385%-2.613%	0.27238%-4.39%
<u>Periods</u>		
September 30, 2016	2004.12.16-2029.02.04	2004.12.10-2017.09.21
December 31, 2015	2004.12.16-2029.02.04	2004.06.28-2017.09.21
September 30, 2015	2004.12.16-2029.02.04	2003.12.03-2020.02.26

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 September 30, 2016, December 31, 2015 and September 30, 2015, the commercial papers were issued at discount rates 1.056%-1.4563%, 1.2407%-1.5833% and 1.3425%-2.0868%, respectively.

21. BONDS PAYABLE

	September 30, 2016	December 31, 2015	September 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	-	-
Unsecured corporate bond second-time issued in 2016	5,000,000	-	-
Convertible bond issued the fifth time	<u>2,579,164</u>	<u>2,544,106</u>	<u>2,532,442</u>
	23,179,164	15,844,106	15,832,442
Less: Current portion and put option of convertible bonds	<u>5,279,164</u>	<u>4,944,106</u>	<u>2,400,000</u>
	<u>\$ 17,900,000</u>	<u>\$ 10,900,000</u>	<u>\$ 13,432,442</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	2011.05.20-2016.05.20	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	2011.05.20-2016.05.20	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	2011.05.20-2016.05.20	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	2011.05.20-2016.05.20	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	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	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 unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.08
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to capital stock or buying back, principal repayable in December of 2018	-

The Company issued its 2016 first unsecured corporate bonds with face value of \$5,000,000 thousand, and the purchasers of the bonds include Mandarin Airlines Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd. holding face value of \$300,000 thousand which was eliminated from the consolidated financial statements.

The Company issued 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%. Because the company distributed cash dividend as of July 31, 2016, there was adjustment the conversion price to NT\$11.64, 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

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Minimum lease payments - flight equipment</u>			
Within one year	\$ 1,428,467	\$ 1,428,467	\$ 2,178,466
Beyond one year and within five years	<u>4,007,783</u>	<u>5,079,133</u>	<u>5,436,250</u>
Present value of minimum lease payments	<u>\$ 5,436,250</u>	<u>\$ 6,507,600</u>	<u>\$ 7,614,716</u>
Interest rates	1.0672%-1.63%	1.1828%- 1.5667%	1.4%-1.67%

The Company had leased back engines and A330-300, A340-300, B747-400 in total of 5 aircrafts under finance leases as of September 30, 2016. The lease terms started from June 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to aircraft and engines, and enjoyed the same substantive right prior to the transaction. Floated interest rate was stated in all obligations under finance leases. Therefore, the minimum lease payments under sale-leaseback aircraft contract were 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.

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Minimum lease payments - cargo terminal</u>			
Within one year	\$ 29,902	\$ 37,697	\$ 31,308
Beyond one year and within five years	<u>92,885</u>	<u>117,433</u>	<u>136,561</u>
	122,787	155,130	167,869
Less: Financial cost	<u>(2,763)</u>	<u>(7,626)</u>	<u>(10,844)</u>
Present value of minimum lease payments	<u>\$ 120,024</u>	<u>\$ 147,504</u>	<u>\$ 157,025</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>90,534</u>	<u>118,014</u>	<u>126,525</u>
	<u>\$ 120,024</u>	<u>\$ 147,504</u>	<u>\$ 157,025</u>
Discount rate	4.97%	4.96%	5.036%
Total amount of present value of minimum lease payments			
Current	\$ 1,457,957	\$ 1,457,957	\$ 2,208,966
Noncurrent	<u>4,098,317</u>	<u>5,197,147</u>	<u>5,562,775</u>
	<u>\$ 5,556,274</u>	<u>\$ 6,655,104</u>	<u>\$ 7,771,741</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 both fixed and floating 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 September 30, 2016, the Group has rented eleven A330-300 planes, eleven B737-800 planes, ten B777-300ER planes, six ERJ190 planes and eight A320-200 planes under operating lease contracts in which the lease terms range from 8 to 12 years.

As of September 30, 2016, December 31, 2015 and September 30, 2015, the refundable deposits paid by the Group under operating lease contracts were \$1,033,792 thousand, \$952,520 thousand and \$883,568 thousand, respectively. Part of the guarantees is secured by credit guarantees, and outstanding credit guarantees as of September 30, 2016, December 31, 2015 and September 30, 2015 were \$1,379,874 thousand, \$1,304,259 thousand and \$1,116,671 thousand.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Up to 1 year	\$ 10,234,381	\$ 8,896,478	\$ 8,417,755
Over 1 year to 5 years	37,017,468	33,344,415	31,477,625
Over 5 years	<u>36,484,496</u>	<u>32,325,852</u>	<u>30,620,314</u>
	<u>\$ 83,736,345</u>	<u>\$ 74,566,745</u>	<u>\$ 70,515,694</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Minimum lease payment	<u>\$ 2,925,994</u>	<u>\$ 2,009,689</u>	<u>\$ 7,834,871</u>	<u>\$ 5,280,731</u>

23. OTHER PAYABLES

	September 30, 2016	December 31, 2015	September 30, 2015
Fuel cost	\$ 2,498,113	\$ 2,038,041	\$ 2,859,550
Ground service expense	1,017,807	1,135,152	1,237,670
Repair expense	966,679	916,442	572,614
Interest expense	187,043	262,601	207,577
Short-term employee benefits	2,353,631	3,310,173	3,297,289
Terminal surcharges	751,942	781,621	693,652
Commission expense	408,813	450,492	539,730
Others	<u>3,159,853</u>	<u>3,402,026</u>	<u>2,441,579</u>
	<u>\$ 11,343,881</u>	<u>\$ 12,296,548</u>	<u>\$ 11,849,661</u>

24. DEFERRED REVENUE

	September 30, 2016	December 31, 2015	September 30, 2015
Frequent flyer program	\$ 2,375,105	\$ 2,610,667	\$ 2,579,774
Advance ticket sales	<u>12,211,502</u>	<u>12,365,348</u>	<u>10,529,513</u>
	<u>\$ 14,586,607</u>	<u>\$ 14,976,015</u>	<u>\$ 13,109,287</u>
Current	\$ 12,784,380	\$ 13,112,086	\$ 11,284,169
Noncurrent	<u>1,802,227</u>	<u>1,863,929</u>	<u>1,825,118</u>
	<u>\$ 14,586,607</u>	<u>\$ 14,976,015</u>	<u>\$ 13,109,287</u>

25. PROVISIONS

	September 30, 2016	December 31, 2015	September 30, 2015
Operating lease-aircraft	<u>\$ 7,132,404</u>	<u>\$ 6,187,481</u>	<u>\$ 5,681,285</u>
Current	\$ 35,497	\$ 20,186	\$ 19,874
Non-current	<u>7,096,907</u>	<u>6,167,295</u>	<u>5,661,411</u>
	<u>\$ 7,132,404</u>	<u>\$ 6,187,481</u>	<u>\$ 5,681,285</u>
			Aircraft Lease Contract
Balance at January 1, 2015			\$ 4,303,780
Additional provisions recognized			1,495,803
Usage			(160,021)
Effect of exchange rate changes			<u>41,723</u>
Balance at September 30, 2015			<u>\$ 5,681,285</u>
Balance at January 1, 2016			\$ 6,187,481
Additional provisions recognized			1,908,338
Usage			(936,054)
Effect of exchange rate changes			<u>(27,361)</u>
Balance at September 30, 2016			<u>\$ 7,132,404</u>

The Company and Mandarin Airlines leased flight equipment under operating lease agreements. When the lease expires and before returning the flight equipment to the lessor, such 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 Taiwan Co., Ltd. had to pay the maintenance monthly based on the actual 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 September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Operating costs	\$ 151,143	\$ 99,513	\$ 452,338	\$ 295,639
Operating expenses	<u>111,237</u>	<u>69,771</u>	<u>261,034</u>	<u>140,148</u>
	<u>\$ 262,380</u>	<u>\$ 169,284</u>	<u>\$ 713,372</u>	<u>\$ 435,787</u>

27. EQUITY

a. Share capital

Common shares

	September 30, 2016	December 31, 2015	September 30, 2015
Number 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>\$ 54,708,901</u>

b. Capital surplus

	September 30, 2016	December 31, 2015	September 30, 2015
Issuance of stock in excess of par value and conversion premium	\$ 552,470	\$ 552,470	\$ 552,470
Gain on sale of treasury shares held by subsidiaries and distribution of cash dividends to treasury shares held by subsidiaries	2,673	1,156	11,747
Employee stock options expired	11,747	11,747	955
Long-term investment	1,019	1,019	1,156
Bonds payable equity component	<u>232,023</u>	<u>232,023</u>	<u>232,023</u>
	<u>\$ 799,932</u>	<u>\$ 798,415</u>	<u>\$ 798,351</u>

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

The capital surplus arising from long-term investments and employee stock options may not be used for other purpose but to offset deficits. The capital surplus arising from stock option for employees and convertible bonds, cannot be used for any purpose.

c. Appropriation of earnings and dividend policy

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

For the earnings distribution under the Company's Articles of Incorporation before the amendment, please refer to Note 27 of the consolidated financial statements for the year ended December 31, 2015.

Distribution of dividends should be resolved and recognized in the shareholders' meeting in the following year.

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 earnings of \$47,471 thousand, the unappropriated deficits of \$3,161,115 thousand, the remaining amount of accumulated deficit was \$3,864,876 thousand. The Company offset the accumulated deficit against legal reserve of \$1,511,953 thousand. No bonus to employees was appropriated for 2014 because of a net loss in that year.

2) Appropriation of earnings in 2015

The appropriations of earnings for 2015 had been resolved of shareholders' meeting on June 24, 2016. 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 were 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	85,324	-	-	85,324
Unrealized gain (loss) on available-for-sale financial assets	-	(6,382)	-	(6,382)
Cumulative gain (loss) arising on changes in fair value of hedging instruments	-	-	(199,375)	(199,375)
Cumulative gain arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	2,425,899	2,425,899

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Cash Flow Hedge	Total
Income of associates and joint ventures accounted for using the equity method	\$ -	\$ (182)	\$ -	\$ (182)
Effect of income tax	<u>(14,504)</u>	<u>-</u>	<u>(377,881)</u>	<u>(392,385)</u>
Balance on September 30, 2015	<u>\$ 170,672</u>	<u>\$ (2,549)</u>	<u>\$ (160,922)</u>	<u>\$ 7,201</u>
Balance on January 1, 2016	\$ 157,959	\$ 1,755	\$ (225,997)	\$ (66,283)
Exchange differences arising on translating the foreign operations	(127,828)	-	-	(127,828)
Unrealized gain (loss) on available-for-sale financial assets	-	(2,359)	-	(2,359)
Cumulative gain (loss) arising on changes in fair value of hedging instruments	-	-	(358,448)	(358,448)
Cumulative (loss) gain arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	396,032	396,032
Effect of income tax	<u>20,024</u>	<u>-</u>	<u>(7,236)</u>	<u>12,788</u>
Balance on September 30, 2016	<u>\$ 50,155</u>	<u>\$ (604)</u>	<u>\$ (195,649)</u>	<u>\$ (146,098)</u> (Concluded)

e. Non-controlling interest

	For the Nine Months Ended September 30	
	2016	2015
Beginning balance	\$ 2,286,647	\$ 2,321,737
Net income attributable to non-controlling interest	191,301	163,128
Exchange differences arising on translating the foreign operations	(2,760)	7,919
Unrealized gain or loss on available-for-sale financial assets	(6,575)	(7,097)
Cumulative gain (loss) arising on changes in fair value of hedging instruments	2,523	1,393
Cumulative (loss) gain arising on changes in fair value of hedging instruments reclassified to profit or loss	2,086	(108)
Effect of income tax	(5,130)	(2,754)
Acquisition of non-controlling interests in subsidiaries	(4,548)	(230)
Dividends paid by subsidiaries	<u>(201,886)</u>	<u>(157,053)</u>
Ending balance	<u>\$ 2,261,658</u>	<u>\$ 2,326,935</u>

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of September 30, 2016 and 2015 and 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>Nine months ended September 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>Nine months ended September 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>September 30, 2016</u>			
Mandarin Airlines	2,075	\$ 19,398	\$ 19,398
Hwa Hsia	814	<u>7,612</u>	<u>7,612</u>
		<u>\$ 27,010</u>	<u>\$ 27,010</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>September 30, 2015</u>			
Mandarin Airlines	2,075	\$ 23,340	\$ 23,340
Hwa Hsia	814	<u>9,159</u>	<u>9,159</u>
		<u>\$ 32,499</u>	<u>\$ 32,499</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 voting right and the right to subscribe for the Company's new shares during rights issue.

28. NET INCOME

a. Revenue

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Passenger	\$ 25,267,766	\$ 25,371,204	\$ 72,814,244	\$ 72,104,647
Cargo	8,775,508	9,257,257	25,035,280	30,461,190
Others	<u>2,509,597</u>	<u>2,460,683</u>	<u>7,537,336</u>	<u>7,308,459</u>
	<u>\$ 36,552,871</u>	<u>\$ 37,089,144</u>	<u>\$ 105,386,860</u>	<u>\$ 109,874,296</u>

b. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Interest income	\$ 48,779	\$ 118,917	\$ 193,002	\$ 343,536
Subsidy income	9,991	50,836	110,376	151,135
Dividend income	54,182	1,660,686	59,927	1,883,736
Others	<u>68,084</u>	<u>391,497</u>	<u>219,381</u>	<u>560,940</u>
	<u>\$ 181,036</u>	<u>\$ 2,221,936</u>	<u>\$ 582,686</u>	<u>\$ 2,939,347</u>

c. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Gain on disposal property, plant and equipment	\$ 2,053	\$ 4,637	\$ 11,337	\$ 8,078
Loss on disposal of non-current assets held for sale	-	-	(26,429)	-
Gain (loss) arising on financial assets classified as held for trading	(11,537)	197,012	(30,580)	148,628
Gain (loss) on foreign exchange, net	(203,421)	414,751	(655,487)	411,716
Impairment loss on assets held for sale	(138,335)	(1,899,372)	(138,335)	(1,899,372)
Loss on disposal of investments	(358)	-	(358)	-
Others	<u>(67,316)</u>	<u>(226,868)</u>	<u>(703,465)</u>	<u>(601,834)</u>
	<u>\$ (418,914)</u>	<u>\$ (1,509,840)</u>	<u>\$ (1,543,317)</u>	<u>\$ (1,932,784)</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 related compensation expense was about \$201,000 thousand.

d. Financial cost

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Interest expense				
Bonds payable	\$ 73,557	\$ 67,447	\$ 212,798	\$ 224,652
Bank loan	209,386	338,387	700,832	1,052,272
Interest on obligations under financial lease	17,917	36,864	57,955	111,093
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss	2,989	1,494	6,901	4,530
Others	<u>72</u>	<u>64</u>	<u>72</u>	<u>64</u>
	<u>\$ 303,921</u>	<u>\$ 444,256</u>	<u>\$ 978,558</u>	<u>\$ 1,392,611</u>

Information of interest capitalization was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Capitalization rate	1.53%-1.62%	1.74%-1.79%	1.53%-1.73%	1.74%-1.79%
Capitalization interest	<u>\$ 109,360</u>	<u>\$ 89,820</u>	<u>\$ 329,434</u>	<u>\$ 241,392</u>

e. Depreciation and amortization expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Property, plant, equipment	\$ 4,389,125	\$ 4,236,992	\$ 13,001,928	\$ 13,052,574
Investment property	70	70	210	210
Intangible asset	<u>44,189</u>	<u>18,370</u>	<u>92,197</u>	<u>49,740</u>
Depreciation and amortization expense	<u>\$ 4,433,384</u>	<u>\$ 4,255,432</u>	<u>\$ 13,094,335</u>	<u>\$ 13,102,524</u>
An analysis of depreciation by function				
Operating cost	\$ 4,216,759	\$ 4,069,872	\$ 12,486,891	\$ 12,438,448
Operating expense	<u>172,436</u>	<u>167,190</u>	<u>515,247</u>	<u>614,336</u>
	<u>\$ 4,389,195</u>	<u>\$ 4,237,062</u>	<u>\$ 13,002,138</u>	<u>\$ 13,052,784</u>

(Continued)

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
An analysis of amortization by function				
Operating cost	\$ 454	\$ 211	\$ 486	\$ 633
Operating expense	<u>43,735</u>	<u>18,159</u>	<u>91,711</u>	<u>49,107</u>
	<u>\$ 44,189</u>	<u>\$ 18,370</u>	<u>\$ 92,197</u>	<u>\$ 49,740</u>
				(Concluded)

f. Employment benefit expense

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
Post-employment benefit				
Defined contribution plan	\$ 108,722	\$ 94,514	\$ 316,061	\$ 270,034
Defined benefit plan	<u>262,380</u>	<u>169,284</u>	<u>713,372</u>	<u>435,787</u>
	<u>\$ 371,102</u>	<u>\$ 263,798</u>	<u>\$ 1,029,433</u>	<u>\$ 705,821</u>
Other employee benefits				
Salary expenses	\$ 4,902,196	\$ 4,909,655	\$ 14,323,300	\$ 13,646,320
Personnel service expenses	<u>1,310,920</u>	<u>1,017,934</u>	<u>3,810,497</u>	<u>3,618,037</u>
	<u>\$ 6,213,116</u>	<u>\$ 5,927,589</u>	<u>\$ 18,133,797</u>	<u>\$ 17,264,357</u>
An analysis of employee benefit expense by function				
Operating cost	\$ 5,410,357	\$ 5,100,766	\$ 15,610,016	\$ 14,626,436
Operating expense	<u>1,173,861</u>	<u>1,090,621</u>	<u>3,553,214</u>	<u>3,343,742</u>
	<u>\$ 6,584,218</u>	<u>\$ 6,191,387</u>	<u>\$ 19,163,230</u>	<u>\$ 17,970,178</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 nine months ended September 30, 2016, the employees' compensation was \$681,690 thousand representing x% of the base net profit. The employee bonus for the three months and nine months ended September 30, 2015 was calculated based on the previous Article of Incorporation and recognized \$70,135 thousand and \$71,589 thousand, respectively. 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. Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors resolved by the shareholders' meeting in 2015 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

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 and adjusted in the subsequent year.

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 September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Current tax				
Current year	\$ 57,455	\$ 63,757	\$ 163,947	\$ 185,385
Prior year adjustment	-	-	(116)	1,983
Deferred tax				
Current year	<u>378,282</u>	<u>419,885</u>	<u>713,137</u>	<u>1,007,655</u>
Income tax expense recognized in profit or loss	<u>\$ 435,737</u>	<u>\$ 483,642</u>	<u>\$ 876,968</u>	<u>\$ 1,195,023</u>

b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ 8,829	\$ (24,214)	\$ 15,758	\$ (16,412)
Fair value revaluation of hedging instruments fair for cash flow hedging	<u>1,739</u>	<u>(82,284)</u>	<u>(8,100)</u>	<u>(378,727)</u>
Total income tax recognized in other comprehensive income	<u>\$ 10,568</u>	<u>\$ (106,498)</u>	<u>\$ 7,658</u>	<u>\$ (395,139)</u>

c. Integrated income tax

	September 30, 2016	December 31, 2015	September 30, 2015
Imputation credits accounts	<u>\$ 128,967</u>	<u>\$ 551,908</u>	<u>\$ 539,835</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 2014, 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 for reinvestigation, administrative appeal and administrative proceedings but the Supreme Administrative Court affirmed the additional tax payment of \$129,350 thousand on December 8, 2011, and TACT made the additional tax payment. Because the decision of the court on the amount of fine remained the same, TACT filed an administrative remedy, and the High Administrative Court had reached a decision on June 15, 2016 that TACT should pay 0.46 of the amount of the excessive distribution of ICA. However, TACT refused to accept the resolution and appealed to the Supreme Administrative Court on July 4, 2016. Nevertheless, TACT recognized a provision for fine in the amount of \$38,805 thousand.

30. EARNINGS PER SHARE

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Basic earnings per share	<u>\$0.09</u>	<u>\$0.39</u>	<u>\$0.33</u>	<u>\$0.94</u>
Diluted earnings per share	<u>\$0.09</u>	<u>\$0.38</u>	<u>\$0.32</u>	<u>\$0.90</u>
Earnings used in the computation of basic earnings per share	\$ 513,429	\$ 2,133,705	\$ 1,807,768	\$ 5,100,661
Effect of potentially dilutive ordinary shares:				
Interest on convertible bonds (after tax)	<u>11,573</u>	<u>10,355</u>	<u>34,718</u>	<u>37,380</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 525,002</u>	<u>\$ 2,144,060</u>	<u>\$ 1,842,486</u>	<u>\$ 5,138,041</u>
Weighted average number of ordinary shares in computation of basic earnings per share	5,468,002	5,467,395	5,468,002	5,420,841
Effect of potentially dilutive ordinary shares:				
Convertible bonds	230,610	219,714	230,610	267,278
Employees’ compensation or bonus issue to employees	<u>1,587</u>	<u>3,190</u>	<u>81,234</u>	<u>4,760</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>5,700,199</u>	<u>5,690,299</u>	<u>5,779,846</u>	<u>5,692,879</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, as the effect is dilutive. Such dilutive effect of the potential shares is 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 the same as those stated in the consolidated financial statements for the year ended December 31, 2015; for related information, please refer to Note 31.

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.

	September 30, 2016		December 31, 2015		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>						
Bonds payable	\$ 23,179,164	\$ 23,507,176	\$ 15,844,106	\$ 16,459,680	\$ 15,832,442	\$ 16,252,367
Loans and debt	81,228,066	81,279,447	87,783,617	87,944,264	91,616,482	91,730,709

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of September 30, 2016, December 31, 2015 and September 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 0.935%, 0.433% and 0.747%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC are based on quoted market prices (Level 1).

b. Fair value measurements recognized in the balance sheets

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).

September 30, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	\$ -	\$ 1,010	\$ -	\$ 1,010
Domestic money market fund	<u>436,837</u>	<u>-</u>	<u>-</u>	<u>436,837</u>
	<u>\$ 436,837</u>	<u>\$ 1,010</u>	<u>\$ -</u>	<u>\$ 437,847</u>
Financial liabilities at FVTPL				
Derivative instrument	<u>\$ -</u>	<u>\$ 5,419</u>	<u>\$ -</u>	<u>\$ 5,419</u>
Available-for-sale financial assets				
Securities listed in domestic	<u>\$ 14,099</u>	<u>-</u>	<u>-</u>	<u>\$ 14,099</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 6,818</u>	<u>\$ 199</u>	<u>\$ 7,017</u>
Derivative financial liabilities for hedging	<u>\$ -</u>	<u>\$ 192,562</u>	<u>\$ 44,691</u>	<u>\$ 237,253</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>

September 30, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	\$ -	\$ 164,848	\$ -	\$ 164,848
Domestic money market fund	<u>244,970</u>	<u>-</u>	<u>-</u>	<u>244,970</u>
	<u>\$ 244,970</u>	<u>\$ 164,848</u>	<u>\$ -</u>	<u>\$ 409,818</u>
Available-for-sale financial assets				
Securities listed in domestic	<u>\$ 15,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,403</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 57,470</u>	<u>\$ 19,249</u>	<u>\$ 76,719</u>
Derivative financial liabilities for hedging	<u>\$ -</u>	<u>\$ 12,065</u>	<u>\$ 245,335</u>	<u>\$ 257,400</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 cannot determine their fair value, the total fair value disclosure is not total value of the Group.

c. Categories of financial instruments

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 437,847	\$ 544,036	\$ 409,818
Available-for-sale financial assets (Note 3)	154,702	242,991	382,760
Derivative financial assets for hedging	7,017	63,798	76,719
Loans and receivables (Note 1)	<u>33,402,758</u>	<u>35,800,865</u>	<u>36,238,501</u>
	<u>\$ 34,002,324</u>	<u>\$ 36,651,690</u>	<u>\$ 37,107,798</u>
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	\$ 5,419	\$ -	\$ -
Derivative financial liabilities for hedging	237,253	324,980	257,400
Financial liabilities at amortized cost (Note 2)	<u>123,293,645</u>	<u>125,241,381</u>	<u>130,617,224</u>
	<u>\$ 123,536,317</u>	<u>\$ 125,566,361</u>	<u>\$ 130,874,624</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 rates, exchange rates and in fuel prices, the Group controls its operating costs to 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 management 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 risks 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 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 to hedge against risks through derivative financial instruments that are highly negatively correlated to the fair values of hedged items, then 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 a decrease in pre-tax profit of \$140,444 thousand by the end of September 30, 2016 and increase in pre-tax profit of \$15,058 thousand, by the end of September 30, 2015.

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.

	September 30, 2016	December 31, 2015	September 30, 2015
Fair value interest rate risk			
Financial liabilities	\$ 23,725,660	\$ 16,723,881	\$ 16,877,850
Cash flow interest rate risk			
Financial liabilities	86,445,979	93,742,231	98,577,922

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) point higher and had all other variables been held constant, the Group's pretax profit for the nine months ended September 30, 2016 would have decreased by \$162,086 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 nine months ended September 30, 2015 would have decreased by \$184,834 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 Nine Months Ended September 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%	\$ -	\$ 180	\$ 19,820	\$ 90,243
Fuel price decrease 5%	-	(180)	(21,423)	(61,802)

2) Credit risk

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

33. RELATED-PARTY TRANSACTIONS

The transactions, accounts balances, income and expenses between related parties were eliminated from the consolidated report and, therefore, were not disclosed in this note. Except for the disclosures stated in other notes, transactions between the Group and its related parties are disclosed below:

a. Operating transactions

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
<u>Sales of goods</u>				
Associates	\$ 439	\$ 755	\$ 1,743	\$ 1,650
Jointly controlled entities	\$ 3,634	\$ 3,618	\$ 10,447	\$ 10,642
Major stockholder	\$ 6,203	\$ 9,133	\$ 23,182	\$ 26,696
<u>Purchases of goods</u>				
Associates	\$ 159,276	\$ 152,659	\$ 489,490	\$ 419,859
Jointly controlled entities	\$ 405,836	\$ 406,163	\$ 1,190,934	\$ 1,155,520
Major stockholder	\$ 14,027	\$ 21,107	\$ 51,669	\$ 60,548

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

	September 30, 2016	December 31, 2015	September 30, 2015
Associates	\$ 2	\$ 182	\$ 238
Jointly controlled entities	1,815	599	1,796
Major stockholder	<u>2,138</u>	<u>3,093</u>	<u>2,828</u>
	<u>\$ 3,955</u>	<u>\$ 3,874</u>	<u>\$ 4,862</u>

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

	September 30, 2016	December 31, 2015	September 30, 2015
Associates	\$ 100,354	\$ 98,245	\$ 79,612
Jointly controlled entities	412,443	388,371	411,077
Major stockholder	<u>4,604</u>	<u>7,138</u>	<u>6,544</u>
	<u>\$ 517,401</u>	<u>\$ 493,754</u>	<u>\$ 497,233</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 September 30, 2016 and 2015, the Company had paid rentals of about \$51,669 thousand and \$60,548 thousand, respectively; for the three months ended September 30, 2016 and 2015, were \$14,027 thousand and \$21,107 thousand.

c. Endorsements and guarantees

	September 30, 2016		December 31, 2015		September 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	\$ 2,728,000	\$ 3,400,000	\$ 2,739,000	\$ 3,400,000	\$ 2,739,000
Taiwan Air Cargo Terminal	1,080,000	456,056	1,080,000	486,815	1,080,000	506,453
Freighter Prince Ltd.	-	-	236,629	236,629	290,530	290,530
Cal Hotel	180,000	1,586	180,000	6,343	180,000	7,929
Tigerair Taiwan	893,793	426,362	937,895	447,399	937,895	447,399

d. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Short-term employee benefits	\$ 11,677	\$ 10,415	\$ 38,608	\$ 30,655
Post-employment benefits	<u>9,944</u>	<u>2,105</u>	<u>11,467</u>	<u>3,235</u>
	<u>\$ 21,621</u>	<u>\$ 12,520</u>	<u>\$ 50,075</u>	<u>\$ 33,890</u>

The compensation of directors and key executives was determined by the remuneration committee based on the individual performance 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:

	September 30, 2016	December 31, 2015	September 30, 2015
Property, plant and equipment	\$ 86,827,242	\$ 90,642,565	\$ 89,859,894
Restricted assets - noncurrent			
Pledged certificate deposits	44,903	268,790	311,765
US treasury bill	<u>-</u>	<u>236,634</u>	<u>290,530</u>
	<u>\$ 86,872,145</u>	<u>\$ 91,147,989</u>	<u>\$ 90,462,189</u>

The above US Treasury bill had been pledged as collaterals for Freighter Prince Ltd.

35. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 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. The aircraft are expected to be delivered from 2016 to 2018, and one aircraft had been handed over in September 2016.

Prepayments for aircraft purchases were as follows:

September 30, 2016	December 31, 2015	September 30, 2015
US\$801,351 thousand	US\$685,231 thousand	US\$629,587 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 start from 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 September 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 September 30, 2016, the cumulated consultant service expense and construction equipment had amounted to \$413,327 thousand (VAT included) and \$4,160,937 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$410,041 thousand (VAT included) and \$4,101,052 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 rental rates for the development stage differ from those for the operation period. The rental rates should follow Article No. 2 of the “Regulations for Favorable Rentals Regarding Public Land Lease and Superficies in Infrastructure Projects,” which states that rental calculation in the development stage should include the land value added tax plus the necessary maintenance fee; in the operation period, rentals are 60% of the amount based on the National Building Land Rental Standard plus land value tax, value-added tax and the necessary maintenance fee.

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

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

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

- 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 U.S. Northern District Court of California by a group of passengers, who alleged that there was an antitrust violation in December 2007. The Company has properly joined the defendants' Joint Defense Group. The litigation is at the pretrial stage, and no evidence supporting the plaintiffs' allegation has been raised so far.

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:

September 30, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 434,535	31.3480	\$ 13,621,811
EUR	13,559	35.2113	477,431
HKD	202,420	4.0420	818,185
JPY	2,893,598	0.3099	896,729
CNY	632,396	4.6992	2,979,025
<u>Financial liabilities</u>			
Monetary items			
USD	83,408	31.3480	2,616,827
EUR	1,535	35.2113	54,030
HKD	27,097	4.0420	110,014
JPY	250,087	0.3099	77,438
CNY	59,872	4.6992	282,913

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

September 30, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 278,019	32.8947	\$ 9,145,345
EUR	16,663	37.0370	605,582
HKD	196,492	4.2463	834,366
JPY	2,353,734	0.2747	646,582
CNY	2,454,023	5.1787	12,708,633
<u>Financial liabilities</u>			
Monetary items			
USD	348,297	32.8947	11,457,115
EUR	6,082	37.0370	225,274
HKD	73,043	4.2463	310,163
JPY	5,021,645	0.2747	1,379,452
CNY	169,104	5.1787	875,740

For the three months ended and nine months ended September 30, 2016 and 2015, net foreign exchange losses and gains were \$(203,421) thousand and \$414,751 thousand, \$(655,487) thousand and \$411,716 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

37. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None
 - 2) Endorsement/guarantee provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None
 - 6) Disposal of individual real estates at cost or prices of at least NT\$100 million or 20% of the paid-in capital: None
 - 7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
 - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached)
 - 10) Derivative financial transactions: Notes 7 and 9
- b. Investment in Mainland China: Table 6 (attached)
- c. Business relationship and important transactions between China Airline, Ltd. and its subsidiaries: Table 7 (attached)

38. SEGMENT INFORMATION

Segment Information

The Group mainly engages in air transportation services for passengers and cargo; the services include airport service, storage service, and other air transportation services which are below the financial threshold for an operating segment of the Group. Therefore, the Group's main reportable segment is air transportation. The accounting policies of the reportable segment are consistent with the accounting policies described in Note 4.

For the Nine Months Ended September 30, 2016

	Air Transportation	Others	Adjustment and Write-off	Total
Operating revenue	<u>\$ 104,254,198</u>	<u>\$ 5,883,493</u>	<u>\$ (4,750,831)</u>	<u>\$ 105,386,860</u>
Operating profit and losses	<u>\$ 3,546,085</u>	<u>\$ 871,633</u>	<u>\$ -</u>	<u>\$ 4,417,718</u>
Interest revenue				193,002
Investment income accounted for by the equity method				397,508
Revenue				332,601
Financial cost				(978,558)
Expense				<u>(1,486,234)</u>
Profit before income tax	<u>\$ 121,298,921</u>	<u>\$ 9,554,197</u>	<u>\$ -</u>	<u>\$ 2,876,037</u>
Identifiable assets				\$ 130,853,118
Investment accounted for by the equity method				2,809,980
Assets				<u>82,908,382</u>
Total assets				<u>\$ 216,571,480</u>

For the Nine Months Ended September 30, 2015

	Air Transportation	Others	Adjustment and Write-off	Total
Operating revenue	<u>\$ 109,353,002</u>	<u>\$ 5,585,603</u>	<u>\$ (5,064,309)</u>	<u>\$ 109,874,296</u>
Operating profit and losses	<u>\$ 5,759,165</u>	<u>\$ 674,483</u>	<u>\$ 21,292</u>	<u>\$ 6,454,940</u>
Interest revenue				343,536
Investment income accounted for by the equity method				389,920
Revenue				2,827,722
Financial cost				(1,392,611)
Expense				<u>(2,164,695)</u>
Profit before income tax				<u>\$ 6,458,812</u>
Identifiable assets	<u>\$ 124,527,204</u>	<u>\$ 9,738,251</u>	<u>\$ (53)</u>	<u>\$ 134,265,402</u>
Investment accounted for by the equity method				2,787,227
Assets				<u>87,400,146</u>
Total assets				<u>\$ 224,452,775</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

No.	Endorsement/ Guarantee Provider	Counterparty		Limits on Each Counterparty'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	\$ 11,497,133	\$ 3,850,000	\$ 3,850,000	\$ 2,728,000	\$ -	6.70	\$ 28,742,834	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,497,133	1,080,000	1,080,000	456,056	-	1.88	28,742,834	Y	N	N
		Freighter Prince Ltd.	100% subsidiary	11,497,133	240,586	-	-	-	-	28,742,834	Y	N	N
		Cal Hotel	100% subsidiary	11,497,133	180,000	180,000	1,586	-	0.31	28,742,834	Y	N	N
		Tigerair Taiwan Ltd.	90% subsidiary by direct and indirect holdings	11,497,133	953,579	893,793	426,362	-	1.55	28,742,834	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

SEPTEMBER 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	September 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	\$ 62,744	Note 1
	Everest Investment Holdings Ltd. - preferred stock	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	21,487	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	21,053	-
Mandarin Airlines	<u>Stock</u>							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	19,398	-	19,398	-
	<u>Beneficial certificates</u>							
	Fuh Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	19,702,811.6	249,329	-	249,329	-
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	31,576	-	31,576	-
	Deutsche America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	30,599	-	30,599	-
Cal-Asia Investment	<u>Stock</u>							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	-	5.83	(2,549)	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	20,403	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	3,319	-	3,319	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,637,002.66	57,544	-	57,544	-
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,166,097.86	32,375	-	32,375	-
	Allianz Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,000,696.31	12,409	-	12,409	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	991,355.30	15,006	-	15,006	-
Taiwan Airport Services	<u>Stock</u>							
	TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,277,786	14,099	0.4	14,099	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2016				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Hwa Hsia	<u>Stock</u> China Airlines	Parent company	Available-for-sale financial asset - current	814,152	\$ 7,612	-	\$ 7,612	-
	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,522.71	4,680	-	4,680	-

Note 1: The subsidiary's net asset value was \$62,744 thousand, which included common stock and preferred stock as of September 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 nine months ended September 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 NINE MONTHS ENDED SEPTEMBER 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	\$ (2,040,950)	(2.15)	2 months	\$ -	-	\$ 482,960	6.09	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,110,618	1.34	60 days	-	-	(393,224)	(31.83)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	851,462	1.03	40 days	-	-	(333,883)	(27.03)	-
	China Aircraft Services	Equity-method investee	Purchase	158,815	0.19	30 days	-	-	(34,158)	(2.77)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	221,010	0.27	60 days	-	-	(50,772)	(4.11)	-
	Tigerair Taiwan Co., Ltd.	Subsidiary	Sale	(233,167)	(0.25)	1 months	-	-	60,549	0.71	-
	Taiwan Air Cargo Terminal	Subsidiary	Purchase	301,979	0.36	30 days	-	-	(36,264)	(2.94)	-
	Hwa Hsia	Subsidiary	Purchase	229,933	0.28	2 months	-	-	(72,015)	(5.83)	-
	Taiwan Airport Services	Subsidiary	Purchase	279,166	0.34	40 days	-	-	(59,692)	(4.83)	-
	Cal Park	Subsidiary	Purchase	162,907	0.20	2 months	-	-	(54,302)	(4.40)	-
	Cal Hotel	Subsidiary	Purchase	132,842	0.16	1 months	-	-	(153,859)	(8.26)	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

SEPTEMBER 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	\$ 482,960	5.45	\$ -	-	\$ 288,375	\$ -
Mandarin Airlines	China Airlines	Parent company	276,982	0.34	-	-	268,262	-
China Pacific Catering Services	China Airlines	Parent company	393,224	3.88	-	-	139,461	-
Taoyuan International Airport Service	China Airlines	Parent company	333,883	3.53	-	-	187,098	-
Cal Hotel	China Airlines	Parent company	153,859	2.08	-	-	14,750	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE NINE MONTHS ENDED SEPTEMBER 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 September 30, 2016			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				September 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	\$ 1,523,198	\$ 12,374	\$ 12,374	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation	2,042,368	2,042,368	188,154,025	93.99	1,333,241	(26,193)	(25,763)	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,277,693	32,589	17,598	-
	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	1,211,283	31,215	31,215	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	646,277	299,580	152,786	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	756,607	320,235	156,915	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	446,405	(57,129)	(57,129)	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	395,971	138,864	130,444	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	509,095	204,931	40,986	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	247,795	320,137	78,434	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	253,352	117,076	55,438	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	253,363	168,780	60,389	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	363,351	49,477	49,477	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	214,745	150,654	18,633,937	26.00	248,254	63,127	16,413	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	163,358	27,271	14,999	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	91,546	18,225	17,851	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	24,370	(791)	(791)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	33,807	3,568	1,820	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,941	4,875	1,219	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US\$ 1	US\$ 1	1,000	100.00	31	-	-	-
Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US\$ 1	US\$ 1	1,000	100.00	31	-	-	-	
Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation	1,600,000	1,600,000	160,000,000	80.00	511,751	(582,680)	(466,144)	-	
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	60,000	60,000	6,000,000	100.00	20,344	(21,387)	(21,387)	-	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation	200,000	200,000	20,000,000	10.00	63,969	(582,680)	(58,268)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	3,574	469,755	1.08	5,763	117,076	999	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	41,711	8,649	2,964	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	351,524	15,229	15,229	Note 3

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

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

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

Note 4: Have acquired non-controlling 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 NINE MONTHS ENDED SEPTEMBER 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 September 30, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of September 30, 2016	Accumulated Inward Remittance of Earnings as of September 30, 2016
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,054,887 (RMB 224,480)	Indirect (Note 1)	\$ 131,223 (US\$ 4,186)	\$ -	\$ -	\$ 131,223 (US\$ 4,186)	\$ 44,157 (RMB 9,198)	14.00	\$ 6,182 (RMB 1,288)	\$ 230,536 (RMB 49,058)	\$ 97,524 (US\$ 3,111) (Note 4)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	65,789 (RMB 14,000)	Indirect (Note 1)	61,034 (US\$ 1,947)	-	-	61,034 (US\$ 1,947)	62,103 (RMB 12,936)	14.00	8,694 (RMB 1,811)	106,640 (RMB 22,693)	17,743 (US\$ 566)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,156,426 (US\$ 36,890)	Indirect (Note 1)	67,429 (US\$ 2,151)	-	-	67,429 (US\$ 2,151)	-	5.83	-	-	(Note 4)
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	365,611 (US\$ 11,663)	Indirect (Note 1)	19,937 (US\$ 636)	-	-	19,937 (US\$ 636)	-	5.45	-	20,404 (RMB 4,342)	-
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	97,179 (US\$ 3,100)	Indirect (Note 2)	7,774 (US\$ 248)	-	-	7,774 (US\$ 248)	-	8.00	-	7,774 (US\$ 248)	-
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	31,348 (US\$ 1,000)	Indirect (Note 3)	5,392 (US\$ 172)	-	-	5,392 (US\$ 172)	-	17.15	-	5,392 (US\$ 172)	-

Accumulated Investment in Mainland China as of September 30, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$292,790 (US\$9,340)	\$511,537 (Note 5)	\$35,848,395 (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 September 30, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of September 30, 2016	Accumulated Repatriation of Investment Income as of September 30, 2016
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,054,887 (RMB 224,480)	Indirect (Note 7)	\$ 125,956 (US\$ 4,018)	\$ -	\$ -	\$ 125,956 (US\$ 4,018)	\$ 44,157 (RMB 9,198)	14.00	\$ 6,508 (RMB 1,288)	\$ 241,950 (RMB 50,294)	\$ 119,310 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	65,789 (RMB 14,000)	Indirect (Note 7)	60,408 (US\$ 1,927)	-	-	60,408 (US\$ 1,927)	62,103 (RMB 12,936)	14.00	9,153 (RMB 1,811)	121,001 (RMB 24,342)	44,107 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$186,364 (US\$5,945)	\$186,364 (US\$5,945)	\$321,038 (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 September 30, 2016 amounted to US\$3,110,776 and US\$566,003.

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 NINE MONTHS ENDED SEPTEMBER 30, 2016

(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Global Sky Express	a	Other operating revenue	\$ 61,473	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Passenger revenue	1,756,078	The same as ordinary transactions	1.67
		Taiwan Air Cargo Terminal	a	Other operating revenue	9,629	The same as ordinary transactions	0.01
		Mandarin Airlines	a	Other operating revenue	284,872	The same as ordinary transactions	0.27
		Taoyuan International Airport Services	a	Other operating revenue	2,415	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Other operating revenue	2,898	The same as ordinary transactions	-
		Taiwan Airport Services	a	Other operating revenue	8,941	The same as ordinary transactions	0.01
		Hwa Hsia	a	Other operating revenue	7,006	The same as ordinary transactions	0.01
		Dynasty Holidays	a	Other operating revenue	1,503	The same as ordinary transactions	-
		Global Sky Express	a	Other operating revenue	1,907	The same as ordinary transactions	-
		Yestrip	a	Other operating revenue	8,274	The same as ordinary transactions	0.01
		Cal Hotel	a	Other operating revenue	4,349	The same as ordinary transactions	-
		Tigerair Taiwan	a	Other operating revenue	233,167	The same as ordinary transactions	0.22
		Taiwan Aircraft Maintenance and Engineering	a	Other operating revenue	10,240	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	a	Terminal and landing fees	851,462	The same as ordinary transactions	0.81
		Taiwan Airport Services	a	Terminal and landing fees	279,166	The same as ordinary transactions	0.26
		Hwa Hsia	a	Terminal and landing fees	229,933	The same as ordinary transactions	0.22
		Mandarin Airlines	a	Passenger costs	68,527	The same as ordinary transactions	0.07
		Tigerair Taiwan	a	Passenger costs	11,598	The same as ordinary transactions	0.01
		Taiwan Air Cargo Terminal	a	Other operating cost	301,979	The same as ordinary transactions	0.29
		Dynasty Holidays	a	Other operating cost	24,213	The same as ordinary transactions	0.02
		Cal-Dynasty International	a	Other operating cost	43,226	The same as ordinary transactions	0.04
		Yestrip	a	Other operating cost	9,212	The same as ordinary transactions	0.01
		Cal Park	a	Other operating cost	162,907	The same as ordinary transactions	0.15
		Cal Hotel	a	Other operating cost	132,842	The same as ordinary transactions	0.13
		Sabre Travel Network Taiwan	a	Operating expense	5,887	The same as ordinary transactions	0.01
		Mandarin Airlines	a	Interest expense	1,035	The same as ordinary transactions	-
		Sabre Travel Network Taiwan	a	Interest expense	207	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	a	Accounts receivable - related parties	980	The same as ordinary transactions	-
		Mandarin Airlines	a	Accounts receivable - related parties	482,960	The same as ordinary transactions	0.22
		Sabre Travel Network Taiwan	a	Accounts receivable - related parties	944	The same as ordinary transactions	-
		Global Sky Express	a	Accounts receivable - related parties	3,077	The same as ordinary transactions	-
Yestrip	a	Accounts receivable - related parties	8,553	The same as ordinary transactions	-		
Cal Hotel	a	Accounts receivable - related parties	508	The same as ordinary transactions	-		
Tigerair Taiwan	a	Accounts receivable - related parties	60,549	The same as ordinary transactions	0.03		
Taiwan Airport Services	a	Accounts receivable - related parties	1,061	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	\$ 1,153	The same as ordinary transactions	-
		Yestrip	a	Dividends receivable	3,991	The same as ordinary transactions	-
		Taiwan Air Cargo Terminal	a	Accounts payable - related parties	36,264	The same as ordinary transactions	0.02
		Mandarin Airlines	a	Accounts payable - related parties	276,982	The same as ordinary transactions	0.13
		Taoyuan International Airport Services	a	Accounts payable - related parties	333,883	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	59,692	The same as ordinary transactions	0.03
		Hwa Hsia	a	Accounts payable - related parties	72,015	The same as ordinary transactions	0.03
		Yestrip	a	Accounts payable - related parties	2,477	The same as ordinary transactions	-
		Cal Hotel	a	Accounts payable - related parties	153,859	The same as ordinary transactions	0.07
		Cal Park	a	Accounts payable - related parties	54,302	The same as ordinary transactions	0.03
		Mandarin Airlines	a	Interest payable	1,035	The same as ordinary transactions	-
		Sabre Travel Network (Taiwan)	a	Interest payable	207	The same as ordinary transactions	-
		Mandarin Airlines	a	Bond payable - noncurrent	250,000	The same as ordinary transactions	0.12
		Sabre Travel Network (Taiwan)	a	Bond payable - noncurrent	50,000	The same as ordinary transactions	0.02
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	301,979	The same as ordinary transactions	0.29
		Mandarin Airlines	c	Sales revenue	9,997	The same as ordinary transactions	0.01
		Taoyuan International Airport Services	c	Operating costs	5,343	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating costs	9,629	The same as ordinary transactions	0.01
		Hwa Hsia	c	Operating costs	8,477	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	36,264	The same as ordinary transactions	0.02
		Mandarin Airlines	c	Accounts receivable - related parties	1,484	The same as ordinary transactions	-
		Hwa Hsia	c	Accounts payable - related parties	1,110	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	980	The same as ordinary transactions	-
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	68,527	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Passenger costs	1,756,078	The same as ordinary transactions	1.67
		Taiwan Airport Services	c	Terminal and landing fees	79,656	The same as ordinary transactions	0.08
		Taoyuan International Airport Services	c	Terminal and landing fees	30,318	The same as ordinary transactions	0.03
		Taiwan Air Cargo Terminal	c	Terminal and landing fees	9,997	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating expense	284,872	The same as ordinary transactions	0.27
		China Airlines, Ltd.	b	Interest revenue	1,035	The same as ordinary transactions	-
		Tigerair Taiwan	c	Operating revenue	4,260	The same as ordinary transactions	-
		Tigerair Taiwan	c	Accounts receivable - related parties	249	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts receivable - related parties	276,982	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Interest receivable	1,035	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Notes accounts payable - related parties	482,960	The same as ordinary transactions	0.22
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.12
		Taiwan Airport Services	c	Notes accounts payable - related parties	13,208	The same as ordinary transactions	0.01
		Taiwan Air Cargo Terminal	c	Notes accounts payable - related parties	1,484	The same as ordinary transactions	-
		Taoyuan International Airport Services	c	Accounts payable - related parties	3,439	The same as ordinary transactions	-
3	Taoyuan International Airport Services	Mandarin Airlines	c	Airport service revenue	30,318	The same as ordinary transactions	0.03
		Taiwan Air Cargo Terminal	c	Airport service revenue	5,343	The same as ordinary transactions	0.01
		Tigerair Taiwan	c	Airport service revenue	59,222	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
		China Airlines, Ltd.	b	Airport service revenue	\$ 851,462	The same as ordinary transactions	0.81
		China Airlines, Ltd.	b	Operating expense	2,415	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts receivable - related parties	333,883	The same as ordinary transactions	0.15
		Mandarin Airlines	c	Accounts receivable - related parties	3,439	The same as ordinary transactions	-
4	Cal-Dynasty International	China Airlines, Ltd.	b	Operating revenue	43,226	The same as ordinary transactions	0.04
5	Sabre Travel Network Taiwan	China Airlines, Ltd.	b	Service revenue	5,887	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating expense	2,898	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Interest revenue	207	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts receivable - related parties	1,282	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Interest receivable	207	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	944	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Held-to-maturity financial assets	50,000	The same as ordinary transactions	0.02
6	Taiwan Airport Services	China Airlines, Ltd.	b	Operating revenue	279,166	The same as ordinary transactions	0.26
		Mandarin Airlines	c	Operating revenue	79,656	The same as ordinary transactions	0.08
		China Airlines, Ltd.	b	Operating expense	8,941	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	59,692	The same as ordinary transactions	0.03
		Mandarin Airlines	c	Accounts receivable - related parties	13,208	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts payable - related parties	1,061	The same as ordinary transactions	-
7	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	229,933	The same as ordinary transactions	0.22
		Taiwan Air Cargo Terminal	c	Operating revenue	8,477	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating expense	7,006	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	72,015	The same as ordinary transactions	0.03
		Taiwan Air Cargo Terminal	c	Accounts receivable - related parties	1,110	The same as ordinary transactions	-
8	Dynasty Holidays	China Airlines, Ltd.	b	Operating revenue	24,213	The same as ordinary transactions	0.02
		China Airlines, Ltd.	b	Operating expense	1,503	The same as ordinary transactions	-
9	Global Sky Express	China Airlines, Ltd.	b	Operating costs	61,473	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Operating expense	1,907	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	3,077	The same as ordinary transactions	-
10	Yestrip	China Airlines, Ltd.	b	Operating revenue	9,212	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Operating expense	8,274	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts receivable - related parties	2,477	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Accounts payable - related parties	8,553	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Dividends payable	3,991	The same as ordinary transactions	-
11	Cal Park	China Airlines, Ltd.	b	Operating revenue	162,907	The same as ordinary transactions	0.15
		Cal Hotel	c	Operating revenue	61,692	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Accounts receivable - related parties	54,302	The same as ordinary transactions	0.03
		Cal Hotel	c	Accounts receivable - related parties	294	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
12	Cal Hotel	China Airlines, Ltd.	b	Operating revenue	\$ 132,842	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Operating expense	4,349	The same as ordinary transactions	-
		Cal Park	c	Operating costs	61,692	The same as ordinary transactions	0.06
		China Airlines, Ltd.	b	Accounts receivable - related parties	153,859	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Accounts payable - related parties	508	The same as ordinary transactions	-
		Cal Park	c	Accounts payable - related parties	294	The same as ordinary transactions	-
13	Tigerair Taiwan	China Airlines, Ltd.	b	Operating expense	233,167	The same as ordinary transactions	0.22
		China Airlines, Ltd.	b	Accounts payable - related parties	60,549	The same as ordinary transactions	0.03
		Taoyuan International Airport Services	c	Terminal and landing fees	59,222	The same as ordinary transactions	0.06
		Mandarin Airlines	c	Operating expense	4,260	The same as ordinary transactions	-
		Mandarin Airlines	c	Accounts payable - related parties	249	The same as ordinary transactions	-
		China Airlines, Ltd.	b	Passenger revenue	11,598	The same as ordinary transactions	0.01
14	Taiwan Aircraft Maintenance and Engineering	China Airlines, Ltd.	b	Operating expense	10,240	The same as ordinary transactions	0.01
		China Airlines, Ltd.	b	Accounts payable - related parties	1,153	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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