China Airlines, Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2015 and 2014 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2015 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

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March 25, 2016

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of China Airlines, Ltd. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. and subsidiaries as of December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards, International Accounting Standards, Interpretation as well as related guidance translated by Accounting Research and Development Foundation endorsed by the Financial Supervisory Commission of the Republic of China.

As Note 3 described, the Company and subsidiaries retrospectively applied the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC starting January 1, 2015. Therefore, all items affected by the amendments in prior financial statements were adjusted.

We have audited the parent company only financial statements of China Airlines, Ltd. as of December 31, 2015 and 2014 and for the year ended December 31, 2015 and 2014 on which we have issued a modified unqualified opinion.

March 25, 2016

<u>Notice to Readers</u>

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars)

	2015		2014 (Audit after Adjusted)	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 19 and 32)	$ 23,491,085	11	$ 20,468,151	9
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	542,326	-	235,814	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 32)	52,582	-	42,850	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 11 and 32)	7,610,677	3	9,460,468	4
Notes and accounts - related parties (Notes 32 and 33)	3,874	-	6,615	-
Other receivables	1,032,622	1	817,841	1
Current tax assets (Notes 4 and 29)	9,849	-	8,714	-
Inventories, net (Notes 4 and 12)	8,300,398	4	7,226,063	3
Noncurrent assets held for sale (Notes 4, 5 and 13)	670,455	-	-	-
Other assets - current (Notes 6 and 19)	3,928,747	2	2,643,974	1
Total current assets	45,642,615	21	40,910,490	18
NONCURRENT ASSETS				
Available-for-sale financial assets - noncurrent, net of current portion (Notes 4, 8 and 32)	19,080	-	28,881	-
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 32)	1,710	-	-	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 32)	11,216	-	727	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 10 and 32)	223,911	-	469,317	-
Investments accounted for by the equity method (Notes 4 and 15)	2,877,777	1	2,806,823	1
Property, plant and equipment (Notes 4, 5, 16 and 34)	129,628,866	58	142,655,066	62
Investment properties (Notes 4 and 17)	2,076,182	1	2,076,461	1
Other intangible assets (Notes 4 and 18)	1,009,678	1	670,997	-
Deferred income tax asset (Notes 4, 5 and 29)	7,188,415	3	8,524,043	4
Other assets - noncurrent (Notes 19, 22, 32, 34 and 35)	33,246,859	15	30,931,222	14
Total noncurrent assets	176,283,694	79	188,163,537	82
TOTAL	$ 221,926,309	100	$ 229,074,027	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 20)	$ 173,289	-	$ 4,361,628	2
Short-term bills payable (Note 20)	9,995	-	2,088,113	1
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 32)	313,689	-	2,460,000	1
Notes and accounts payable (Note 32)	1,229,575	1	411,804	-
Notes and accounts payable - related parties (Notes 32 and 33)	493,754	-	435,384	-
Other payable (Notes 23 and 28)	12,296,548	5	11,096,311	5
Current tax liabilities (Notes 4 and 29)	75,645	-	75,940	-
Provisions - current (Notes 4, 5 and 25)	20,186	-	6,744	-
Deferred revenue - current (Notes 4, 5 and 24)	13,112,086	6	11,163,756	5
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 32)	4,944,106	2	8,585,000	4
Loans and debts - current portion (Notes 20, 32 and 34)	30,092,112	14	14,218,482	6
Capital lease obligations - current portion (Notes 4, 22, 32 and 34)	1,457,957	1	2,758,433	1
Other current liabilities (Notes 28 and 32)	4,001,510	2	3,696,400	2
Total current liabilities	68,220,452	31	61,357,995	27
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 32)	11,291	-	5,150	-
Bonds payable - noncurrent (Notes 4, 21, 27 and 32)	10,900,000	5	18,323,836	8
Loans and debts - noncurrent (Notes 20, 32 and 34)	57,691,505	26	73,192,954	32
Provisions - noncurrent (Notes 4, 5 and 25)	6,167,295	3	4,297,036	2
Deferred tax liabilities (Notes 4 and 29)	340,681	-	423,589	-
Capital lease obligations - noncurrent (Notes 4, 22, 32 and 34)	5,197,147	2	7,100,289	3
Deferred revenue - noncurrent (Notes 4, 5 and 24)	1,863,929	1	1,805,315	1
Accrued pension costs (Notes 4, 5 and 26)	10,553,574	5	10,192,908	4
Other noncurrent liabilities (Notes 28 and 32)	423,892	-	1,388,943	1
Total noncurrent liabilities	93,149,314	42	116,730,020	51
Total liabilities	161,369,766	73	178,088,015	78
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)				
Capital stock	54,708,901	25	52,491,666	23
Capital surplus	798,415	-	1,992,415	1
Retained earnings (accumulated deficit)				
Unappropriated retained earnings (accumulated deficit)	2,872,235	1	(3,870,736)	(2)
Other equity	(66,283)	-	(1,905,698)	(1)
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	58,269,896	26	48,664,275	21
NON-CONTROLLING INTERESTS (Note 27)	2,286,647	1	2,321,737	1
Total equity	60,556,543	27	50,986,012	22
TOTAL	$ 221,926,309	100	$ 229,074,027	100

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars, Except Earning (Loss) Per Share)

	2015		2014 (Audit after Adjusted)	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 4, 28 and 33)	$ 145,056,217	100	$ 150,581,742	100
COSTS (Notes 4, 9, 12, 26, 28 and 33)	124,787,843	86	136,950,372	91
GROSS PROFIT	20,268,374	14	13,631,370	9
OPERATING EXPENSES (Notes 4, 26 and 28)	12,139,177	8	11,112,623	7
OPERATING PROFIT	8,129,197	6	2,518,747	2
NONOPERATING INCOME AND LOSS				
Other income (Notes 4, 10 and 28)	3,231,179	2	1,094,416	1
Other gains and losses (Notes 9, 13, 16 and 28)	(2,957,838)	(2)	(1,740,965)	(1)
Finance cost (Notes 9, 28 and 34)	(1,783,793)	(1)	(2,019,124)	(2)
Share of the profit of associates and joint ventures (Note 15)	516,140	-	509,352	-
Total nonoperating income and loss	(994,312)	(1)	(2,156,321)	(2)
PRETAX PROFIT	7,134,885	5	362,426	-
INCOME TAX EXPENSE (Notes 4, 5 and 29)	1,208,675	1	959,914	1
NET INCOME (LOSS)	5,926,210	4	(597,488)	(1)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 26)	(676,833)	-	75,168	-
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(4,428)	-	(16,544)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 29)	115,062	-	(21,027)	-
	(566,199)	-	37,597	-

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars, Except Earning (Loss) Per Share)

	2015		2014 (Audit after Adjusted)	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 27)	$ 67,515	-	$ 119,945	-
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 27)	(6,393)	-	17,467	-
Cash flow hedges (Notes 4 and 27)	2,148,353	1	(2,537,524)	(1)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (Notes 4 and 27)	765	-	954	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	(374,281)	-	414,483	-
	1,835,959	1	(1,984,675)	(1)
Other comprehensive income (loss) for the year, net of income tax	1,269,760	1	(1,947,078)	(1)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 7,195,970	5	$ (2,544,566)	(2)
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	$ 5,763,714	4	$ (749,073)	-
Non-controlling interests	162,496	-	151,585	-
	$ 5,926,210	4	$ (597,488)	-
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	$ 7,072,042	5	$ (2,693,811)	(2)
Non-controlling interests	123,928	-	149,245	-
	$ 7,195,970	5	$ (2,544,566)	(2)
EARNING (LOSS) PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	$ 1.06		$ (0.14)	
Diluted	$ 1.06		$ (0.14)	

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
			Retained Earnings			Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2014	$ 52,000,000	$ 1,924,015	$ 321,891	$ 3,926,293	$ (7,409,299)	$ 1,843	$ (11,486)	$ 96,579	$ (43,372)	$ 50,806,464	$ 2,083,896	$ 52,890,360
Effect of retrospective application and retrospective restatement	-	-	-	-	(8,444)	-	-	-	-	(8,444)	(7,468)	(15,912)
BALANCE AT JANUARY 1, 2014 AS RESTATED	52,000,000	1,924,015	321,891	3,926,293	(7,417,743)	1,843	(11,486)	96,579	(43,372)	50,798,020	2,076,428	52,874,448
Compensation of 2013 deficit												
Legal reserve	-	-	(321,891)	-	321,891	-	-	-	-	-	-	-
Special reserve	-	-	-	(3,926,293)	3,926,293	-	-	-	-	-	-	-
Convertible bonds converted to ordinary shares	491,666	68,400	-	-	-	-	-	-	-	560,066	-	560,066
Net income (loss) for the year ended December 31, 2014	-	-	-	-	(749,073)	-	-	-	-	(749,073)	151,585	(597,488)
Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax	-	-	-	-	47,896	98,009	15,501	(2,106,144)	-	(1,944,738)	(2,340)	(1,947,078)
Total comprehensive income (loss) for the year ended December 31, 2014	-	-	-	-	(701,177)	98,009	15,501	(2,106,144)	-	(2,693,811)	149,245	(2,544,566)
Issue of common shares for cash	-	-	-	-	-	-	-	-	-	-	200,000	200,000
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(103,936)	(103,936)
BALANCE AT DECEMBER 31, 2014	52,491,666	1,992,415	-	-	(3,870,736)	99,852	4,015	(2,009,565)	(43,372)	48,664,275	2,321,737	50,986,012
Compensation of deficit												
Capital surplus	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-	-	-
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	64	-	-	-	-	-	-	-	64	-	64
Convertible bonds converted to ordinary shares	2,217,235	317,889	-	-	-	-	-	-	-	2,535,124	-	2,535,124
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(1,609)	-	-	-	-	(1,609)	(1,965)	(3,574)
Net income for the year ended December 31, 2015	-	-	-	-	5,763,714	-	-	-	-	5,763,714	162,496	5,926,210
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(531,087)	58,107	(2,260)	1,783,568	-	1,308,328	(38,568)	1,269,760
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	1,783,568	-	7,072,042	123,928	7,195,970
Cash dividend from subsidiaries paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	(157,053)	(157,053)
BALANCE AT DECEMBER 31, 2015	$ 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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars)

	2015	2014 (Audit after Adjusted)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 7,134,885	$ 362,426
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	17,261,774	17,460,725
Amortization expenses	70,040	55,422
Bad-debt expense	49,458	30,021
Net gain on fair value change of financial assets and liabilities held for trading	(150,871)	(78,742)
Interest income	(466,923)	(441,968)
Dividend income	(1,884,052)	(29,522)
Share of profit of associates and joint ventures	(516,140)	(509,352)
Gain on disposal of property, plant and equipment	(13,155)	(52,340)
Net gain on disposal of available-for-sale financial assets	-	(6,557)
Impairment loss recognized on available-for-sale financial assets	3,408	-
Impairment loss recognized on property, plant, equipment and noncurrent assets held for sale	2,468,372	-
Loss on inventories and property, plant and equipment	389,274	521,473
Net loss on foreign currency exchange	487,075	436,912
Finance costs	1,783,793	2,019,124
Recognition of provisions	2,079,169	1,530,536
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Amortization of deferred credits	-	(2,862)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(157,350)	55,802
Decrease (increase) in notes and accounts receivable	1,634,673	(1,513,216)
Decrease (increase) in accounts receivable - related parties	136,073	(114,621)
Increase in other receivables	(205,127)	(200,822)
Increase in inventories	(1,248,012)	(412,261)
Increase in other current assets	(1,252,816)	(342,329)
Increase (decrease) in notes and accounts payable	840,863	(443,447)
(Decrease) increase in accounts payable - related parties	(12,707)	119,499
Increase (decrease) in other payables	569,765	(1,755,706)
Increase in deferred revenue	2,006,907	2,208,926
Decrease in provisions	(237,716)	(579,081)
Increase in other current liabilities	512,938	9,333
Decrease in accrued pension liabilities	(296,385)	(162,154)
(Decrease) increase in other liabilities	(14,555)	59,112
Cash generated from operations	30,958,146	18,209,819
Interest received	487,009	454,403
Dividend received	2,382,066	411,683
Interest paid	(1,797,212)	(2,061,008)
Income tax paid	(239,316)	(106,302)
Net cash generated from operating activities	31,790,693	16,908,595

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars)

	2015	2014 (Audit after Adjusted)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of available-for-sale financial assets	$ -	$ 96,862
Proceeds on share redemption of financial assets measured at cost	245,242	4,616
Payments to acquire financial assets for hedging	(13,096)	-
Acquisition of associates	(64,091)	-
Payment for property, plant and equipment	(6,711,363)	(9,920,198)
Proceeds from disposal of property, plant and equipment	20,914	82,451
Increase in refundable deposits	(915,853)	(498,599)
Decrease in refundable deposits	780,503	330,518
Increase in prepayment for equipment	(13,472,830)	(12,337,340)
Refund in prepayment for aircrafts	10,186,049	-
Increase in computer software cost	(408,721)	(230,392)
(Increase) decrease in restricted assets	(88,332)	129,169
Net cash used in investing activities	(10,441,578)	(22,342,913)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term loans	(4,190,523)	4,213,633
(Decrease) increase in short-term bills payable	(2,078,113)	2,088,138
Repayments of bonds payable	(8,585,000)	(4,780,000)
Proceeds of long-term debts	16,626,343	39,440,000
Repayments of long-term debts and capital lease obligations	(19,601,536)	(34,284,523)
Proceeds of guarantee deposits received	124,621	146,335
Refund of guarantee deposits received	(121,159)	(183,913)
Issuance of ordinary shares to non-controlling interest	-	200,000
Cash dividend paid to non-controlling interest	(157,053)	(103,936)
Acquisition of subsidiaries shares	(3,574)	-
Net cash (used in) generated from financing activities	(17,985,994)	6,735,734
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(340,187)	159,086
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,022,934	1,460,502
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	20,468,151	19,007,649
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 23,491,085	$ 20,468,151

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

1. GENERAL INFORMATION

China Airlines, Ltd. (the "Company") was founded in 1959 and its stocks have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company 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 December 31, 2015 and 2014, CADF and NDF held 43.63% and 45.48% of the Company's shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement were approved by the board of directors and authorized for issue on March 25, 2016.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Group should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, the initial application of the above 2013 version of IFRSs is not expected to have any material impact on the Group's accounting policies:

1) IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 is a new disclosure standard that applies to entities with interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The disclosure requirements in IFRS 12 are more extensive than those required in the current standards.

2) IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015.

3) Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to IAS 1 requires the grouping of items of other comprehensive income (OCI) into those that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on OCI items are grouped on the same basis. Under the current IAS 1, there are no such requirements.

The Company will apply the above amendments starting in 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans and share of the defined benefit plans of associates and joint ventures accounted for using the equity method. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, unrealized gains (losses) on available-for-sale financial assets, cash flow hedges, and share of the other comprehensive income (except the share of the remeasurements of the defined benefit plans) of associates and joint ventures accounted for using the equity method.

4) Revision to IAS 19 "Employee Benefits"

Revised IAS 19 requires the immediate recognition of all changes in defined benefit obligations and in the fair value of plan assets in the period these changes occur, thus eliminating the "corridor approach" permitted under the current IAS 19. In addition, all past service costs are recognized immediately in the period of plan amendment. The revision requires all remeasurements of the defined benefit plans to be recognized immediately in other comprehensive income so that the net pension asset or liability will reflect the full value of the plan deficit or surplus.

Furthermore, the interest cost and expected return on plan assets used in the current IAS 19 are replaced with net interest on the net defined liability or asset, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The anticipated impact of the initial application of the revised IAS 19 is detailed as follows:

Impact on Assets, Liabilities and Equity	**Carrying Amount**	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount**
January 1, 2014			
Deferred tax assets	$ 9,127,014	$ 3,259	$ 9,130,273
Accrued pension liabilities	$ 10,410,907	$ 19,172	$ 10,430,079
Accumulated deficit	$ (7,409,299)	$ (8,444)	$ (7,417,743)
Non-controlling interests	2,083,896	(7,468)	2,076,428
Total effect on equity		$ (15,912)	
December 31, 2014			
Deferred tax assets	$ 8,521,770	$ 2,273	$ 8,524,043
Accrued pension liabilities	$ 10,179,539	$ 13,369	$ 10,192,908
Accumulated deficit	$ (3,864,876)	$ (5,860)	$ (3,870,736)
Non-controlling interests	2,326,973	(5,236)	2,321,737
Total effect on equity		$ (11,096)	

Impact on Total Comprehensive Income	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Operating cost	$ 136,954,265	$ (3,893)	$ 136,950,372
Operating expense	11,113,447	(824)	11,112,623
Income tax expense	959,113	801	959,914
Total effect on net profit for the year		$ (3,916)	
Items not being reclassified to profit or loss:			
Remeasurements of the defined benefit plans	74,083	1,085	75,168
Income taxes relating to items that will not be reclassified	(20,842)	(185)	(21,027)
Impact on other comprehensive income for the year (net of income tax)		$ 900	

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

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

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" and those with undetermined effective date. In addition, the FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

New, Amended or Revised Standards and Interpretations	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)
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
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

(Continued)

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

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

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

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

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

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

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

The impairment of financial assets

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

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

Hedge accounting

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

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

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

3) IFRS 16 “Leases”

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS endorsed by Financial Commission Supervisory.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

c. Level 3 inputs are unobservable inputs for the asset or liability.

Current and Noncurrent Assets and Liabilities

Current assets include assets held primarily for the purpose of trading, assets expected to be realized within twelve months after the reporting period, and cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets such as property, plant and equipment, investment properties, intangible assets and other assets that are not classified as current are classified as noncurrent.

Current liabilities include liabilities held primarily for the purpose of trading, liabilities due to be settled within twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Basis of Consolidation

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).

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.

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.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Foreign Currencies

In preparing the consolidated financial statement of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting consolidated financial statement, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Cash Equivalents

Cash equivalents, consisting of commercial paper of time deposits, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale and are stated at the lower of cost or net realizable value. The costs of inventories sold or consumed are determined using the weighted-average method.

Noncurrent Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of equity of associates and joint venture attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used more than one period. The cost of an item of property, plant and equipment shall be recognized as assets if, and only if it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably. Property, plant and equipment are stated at cost, less recognized accumulated depreciation and recognized accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. The estimated useful life residual value are reviewed at the end of each reporting period.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company use the estimated cash flows to be discounted by future pre-tax discount rate, the discount rate reflects current market time value of money and the specific risks to the asset that the estimated future cash flows have not yet adjusted to the market.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All regular way purchases or sales of financial assets means buy or sell financial assets in the period made by regulation or market convention.

   1) Measurement category

      Financial assets are classified into the following specified categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification of financial assets is depending on their nature and purpose of the original recognition. Financial assets are classified into the following categories: Financial assets at fair value through profit or loss and available-for-sale financial assets.

      a) Financial assets at fair value through profit or loss

         Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

         Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 32.

      b) Available-for-sale financial assets

         Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalent, debt investments with no active market, and other receivables are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss and available-for-sale financial assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include the followings:

a) Significant financial difficulty of the issuer or counterparty;

b) Breach of contract, such as a default or delinquency in interest or principal payments;

c) It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

d) The disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is residual interest in any contract after the Group's assets minus all liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except for derivative financial instruments, all the financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when the obligation is discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and fuel price risks, including foreign exchange forward contracts, interest rate swaps, currency options and fuel swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rates, exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedge. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items been hedged, objective of risk management, hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

The Group recognizes provisions when the Group has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

<u>Aircraft lease contracts</u>

When the aircraft lease contracts expire and will be returned to lessor, should assess if existing obligations exist and required to recognize as provision when signing of the lease contract.

Revenue Recognition

a. Rendering of services

   Passenger fares and cargo revenue are recognized when transport service is provided. The value of unused passenger tickets is recognized as “advance ticket - sales”.

b. Dividend and interest income

   Dividend income from investments is recognized when the shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. Financial lease

<u>The Group as lessee</u>

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred.

b. Sale and leaseback

Sale and leaseback transaction if met the condition that all the risks and rewards of ownership of the leased asset is essentially transfer to the lessee, the sale and leaseback type is finance lease; If part of the significant risks and rewards of the leased asset ownership remain with the lessor (the buyer), the sale and leaseback type is operating lease.

1) Financial lease

This transaction does not actually dispose of the assets, the accounting treatment deemed transaction did not occur, and use the book value of the asset before sale continuing recognition of the asset.

2) Operating lease

If the selling price is equal to the fair value, the transaction gain or loss should be recognized immediately. If selling price is above fair value, the difference between the fair value and the book value of the gain or loss should be recognized immediately; only the part of selling price above fair value shall be deferred and amortized over the period of the lease.

c. Operating lease

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, past service cost, and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Program

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member reward.

A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The entity should recognize this deferred revenue as revenue only when the entity has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the share options granted vest immediately.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

a. Current tax

   The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the consolidated statements of comprehensive income.

   The Group's current tax liabilities are calculated by the tax rate has been legislative or substantial legislative at the balance sheet date.

   According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve the retention of these earnings.

   Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

   Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

   Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

   The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of the owned or leased aircraft that meet the criteria for fixed asset capitalization and engines as replacement parts for aircraft and engines are capitalized, and amortized over the expected annual overhaul cycle using straight-line depreciation method.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies shown on Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Where the final tax payable differs from the amounts that were initially recognized, these differences will affect the income tax and deferred tax provisions in the period in which the differences are determined. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be used. When evaluating the realizability of the deferred tax asset, management uses significant accounting judgments and estimates, including expected future revenue growth and profit margins, income tax exemption periods, the use of tax credits, tax planning and certain assumptions. Changes in the industry environment and regulations will result in a material adjustment of the deferred tax asset.

Estimated Impairment of Trade Receivables

The Group assesses the receivables portfolios monthly for impairment. Impairment evidences may include observable changes in debtors' solvency and national or local economic conditions that correlate with default on receivable settlement. Management's analysis of expected cash flows is based on past experience of loss on assets with similar credit risk characteristics. The Group periodically reviews the methods of determining, and assumptions on, the expected amount and timing of cash flows to reduce the difference between the estimated and the actual losses.

Fair Value of Derivatives and Other Financial Instruments

The Group's management uses its judgment in selecting an appropriate valuation technique for financial instruments with no quoted market prices in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instruments. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The chosen valuation techniques and assumptions used are possible effecting in determining the fair value of financial instruments.

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment are depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Group on the basis of past experience and fleet operation performance in the industry.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period are calculated using actuarial assumptions. Those assumptions, which are based on management's judgment and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

Maintenance Reserve for Operating Lease Aircraft

Maintenance reserve is based on the requirement under lease contracts to reflect maintenance costs that may arise on lease expiry. Estimation of this reserve is based on the past maintenance experience on the same or similar type of aircraft; incurred overhaul costs; and historical operating performance data. Changes in judgment or estimations may have a material impact on the amount of maintenance reserve.

Frequent Flyer Program

As stated in Note 4, Frequent Flyer Program a portion of passenger revenue attributable to the awarding of frequent flyer benefits is deferred until the awards are given out. The deferment of the revenue is estimated on the basis of historical trends of breakage and redemption, which is then used to project the expected claiming of these benefits. Changes in fair value per mileage or redemption rate may have a material impact on deferred revenue.

Impairment of Flight Equipment

The impairment of flight equipment was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

6. CASH AND CASH EQUIVALENTS

	December 31 2015	December 31 2014
Cash on hand and revolving fund	$ 478,223	$ 385,684
Checking accounts and demand deposits	6,070,236	8,730,325
Cash equivalent		
Time deposits with original maturities less than three months	16,163,452	10,187,695
Repurchase agreements collateralized by bonds	779,174	1,164,447
	$ 23,491,085	$ 20,468,151

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

	December 31 2015	December 31 2014
Bank balance	0%-1.5%	0%-2%
Time deposits with original maturities less than three months	0.27%-7.25%	0.85%-4.8%
Repurchase agreements collateralized by bonds	0.42%-0.51%	0.55%-0.65%

The amount of time deposits with original maturities more than three months for the years ended December 31, 2015 and 2014 were $1,653,927 thousand and $1,145,720 thousand, respectively, and the market rate intervals were 0.295%-4.1% and 0.2%-4.8%, which were recognized as other current assets. (Refer to Note 19).

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

	December 31 2015	December 31 2014
Financial assets held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ 63,818	$ 46,812
Non-derivative financial assets		
Beneficial certificates	478,508	189,002
	$ 542,326	$ 235,814
Financial assets held for trading - non current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ 1,710	$ -

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2015			
Buy forward contracts	NTD/USD	2016.01.08-2017.01.26	NTD3,276,316/USD99,600
December 31, 2014			
Buy forward contracts	NTD/USD	2015.01.02-2015.06.16	NTD1,247,678/USD40,300

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2015		2014	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Non-current				
Domestic listed company				
Trans Asia Airways	$ 19,080	-	$ 28,881	-

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2015	2014
Derivative financial assets under hedge accounting		
Interest rate swaps	$ -	$ 727
Foreign exchange forward contracts	51,060	-
Currency options	12,403	32,285
Fuel options	335	10,565
	$ 63,798	$ 43,577
Current	$ 52,582	$ 42,850
Non-current	11,216	727
	$ 63,798	$ 43,577
Derivative financial liabilities under hedge accounting		
Interest rate swaps	$ 12,702	$ 5,150
Currency options	12,660	3,028
Fuel options	299,618	2,456,972
	$ 324,980	$ 2,465,150

(Continued)

	December 31	
	2015	2014
Current	$ 313,689	$ 2,460,000
Non-current	11,291	5,150
	$ 324,980	$ 2,465,150

(Concluded)

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

a. Interest rate swaps

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

Notional Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2015			
NT$3,000,000	2016.11.28-2017.06.22	1.01%-1.14%	3M TAIBOR rate
December 31, 2014			
NT$4,500,000	2015.05.24-2017.06.22	0.9%-1.14%	6165 Page 3M CP Rate

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

b. Currency options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2015			
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
December 31, 2014			
Buy USD call option	JPY/USD	2015.01.08-2015.05.15	JPY2,044,410/USD17,900
Sell USD put option	JPY/USD	2015.01.08-2015.05.15	JPY1,973,570/USD17,900

c. Fuel options

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2015			
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
December 31, 2014			
Buy fuel call option	USD	2015.03.31-2015.11.30	NTD10,565
Sell fuel put option	USD	2015.03.31-2015.11.30	NTD2,456,972

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

d. Foreign exchange forward

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2015			
Buy forward contracts	NTD/USD	2016.01.18-2017.05.23	NTD1,076,882/USD32,920

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

	For the Year Ended December 31	
	2015	2014
Increase in operating cost	$ (2,582,480)	$ (418,329)
Increase in finance cost	(7,151)	(7,428)
Other foreign exchange gain	34,786	28,333
	$ (2,554,845)	$ (397,424)

10. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2015		2014	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted common stocks				
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 297,946	14
Jardine Aviation Service	56,023	15	56,023	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	75,791	6	75,919	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	21,995	5	22,031	5
Chung Hwa Express Co.	11,000	11	11,000	11
Regal International Advertising	5,925	6	5,925	6
	223,438		468,844	
Unlisted preferred stocks		-		
Everest Investment Holdings Ltd. (AH)	473		473	-
	$ 223,911		$ 469,317	
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 223,911		$ 469,317	

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

Titan V.C. Corp. liquidated and returned its shares in June 27, 2014 and the Group has received the refund of $4,616 thousand and recognized disposal gain of $2,550 thousand recognized as gain on sale of available-for-sale financial asset.

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

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2015	2014
Notes receivable	$ 344,479	$ 291,420
Accounts receivable		
Accounts receivable	7,376,125	9,235,179
Less: Allowance for impairment loss	(109,927)	(66,131)
	7,266,198	9,169,048
	$ 7,610,677	$ 9,460,468

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

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

	For the Year Ended December 31	
	2015	**2014**
Beginning balance	$ 66,131	$ 57,862
Impairment loss recognized on receivables	49,458	30,021
Amounts written off during current period	(5,292)	(21,387)
Amounts recovered during current period	-	(272)
Exchange influence	(370)	(93)
Ending balance	$ 109,927	$ 66,131

12. INVENTORIES

	December 31	
	2015	**2014**
Aircraft spare parts	$ 7,648,352	$ 6,521,950
Items for in-flight sale	507,603	454,601
Work in process - maintenance services	143,489	248,348
Others	954	1,164
	$ 8,300,398	$ 7,226,063

The cost of inventories recognized as operating costs due to write-downs of inventories was $151,688 thousand and $159,682 thousand.

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2015	**2014**
Aircraft held for sale	$ 670,455	$ -

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

14. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership December 31 2015	Proportion of Ownership December 31 2014
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100
	Cal-Asia Investment	General investment	100	100
	Hwa Hsia	Cleaning of aircraft and maintenance of machine and equipment	100	100
	Yestrip	Travel business	100	100
	Cal Park	Real estate lease and international trade	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100
	Abacus Distribution System (Taiwan)	Sale and maintenance of hardware and software	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59
	Dynasty Holidays	Travel business	51	51
	Taoyuan International Airport Services	Airport services	49	49
	Taiwan Airport Services	Airport services	47	47
	Global Sky Express	Forwarding and storage of air cargo	25	25
	Freighter Princess Ltd.	Aircraft lease	100	100
	Freighter Prince Ltd.	Aircraft lease	100	100
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	90	90
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	-
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	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.

Considering the Group developing strategy, Mandarin Airlines had bought 146,388 shares of Taiwan Airport Services by $3,574 thousand since September 2015.

To provide new generation of aircraft’s repairing services, expand aircrafts maintenance market, and improve the Group’s maintenance quality, the board of directors had reached an agreement to established “Taiwan Aircraft Maintenance And Engineering Co., Ltd.” on August 12, 2014.

Taiwan Aircraft Maintenance And Engineering Co., Ltd, and had completed registration on January 16, 2015.

In order to provide the customers with diversified options, the board of directors has reached an agreement to establish a Low Cost Carrier, named Tigerair Taiwan Co., Ltd., with Tiger Airways Singapore Pte. Ltd. in the form of joint venture. The capital stock of Tigerair Taiwan Co., Ltd. is $2,000,000 thousand, which contains $1,600,000 thousand (80%) from the Company and $200,000 thousand (10%) from Mandarin Airlines Co., Ltd. respectively. Tigerair Taiwan Co., Ltd. was established on April 21, 2014 and launched operations on September 26, 2014.

The financial information of the above companies had been accounted into consolidated financial statement since their registration date.

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 subsidiaries above on 2015 and 2014 has been reported into the correspondent period as investees after auditing.

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

	December 31	
	2015	**2014**
Investments in associates	$ 2,010,774	$ 1,896,814
Investments in jointly controlled entities	867,003	910,009
	$ 2,877,777	$ 2,806,823

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

	December 31	
	2015	**2014**
Unlisted companies		
China Aircraft Services	$ 490,824	$ 450,111
Kaohsiung Catering Services	244,903	232,105
Asian Compressor Technology Services	263,091	259,605
Science Park Logistics	185,226	189,019
Airport Air Cargo Terminal (Xiamen)	494,665	509,411
Airport Air Cargo Service (Xiamen)	226,066	222,974
Eastern United International Logistics (Holdings) Ltd.	41,908	33,589
	1,946,683	1,896,814
Prepaid long-term investment - Science Park Logistics	64,091	-
	$ 2,010,774	$ 1,896,814

On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common stock for cash and with the date of right issues granted on was December 25, 2015. The board of Company has reached an agreement to purchase $64,091 thousand which had been remitted to SPL by December 31, 2015. 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:

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Associate	**2015**	**2014**
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	25%	25%
Science Park Logistics	28%	28%

(Continued)

Name of Associate	Proportion of Ownership and Voting Rights December 31 2015	2014
Arport air Cargo Terminal (Xiamen)	28%	28%
Arport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%
		(Concluded)

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

	2015	2014
China Aircraft Services	$ 46,247	$ 35,664
Kaohsiung Catering Services	58,084	49,086
Asian Compressor Technology Services	93,375	100,716
Science Park Logistics	16,373	23,426
Arport air Cargo Terminal (Xiamen)	18,449	34,365
Arport air Cargo Service (Xiamen)	22,362	19,744
Eastern United International Logistics (Holdings) Ltd.	6,759	4,361
	$ 261,649	$ 267,362

Other comprehensive income of associates accounted for using the equity method in 2015 and 2014 are $15,085 thousands and $23,133 thousand, respectively.

The financial statements used as basis of the amounts of and related information on the investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2015 and 2014 had all been independently audited, except those of Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31 2015	2014
China Pacific Catering Services	$ 705,134	$ 743,817
China Pacific Laundry Services	161,869	166,192
	$ 867,003	$ 910,009

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	
	December 31	
	2015	2014
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%

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

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

	For the Year Ended December 31	
	2015	2014
China Pacific Catering Services	$ 231,012	$ 212,571
China Pacific Laundry Services	23,479	29,419
	$ 254,491	$ 241,990

Other comprehensive income of associates accounted for using the equity method in 2015 and 2014 are $(1,943) thousand and $(16,045) thousand, respectively.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the jointly controlled entities' financial statement audited by the auditor for the same years.

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

16. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2015	2014
Cost		
Freehold land	$ 976,427	$ 953,614
Buildings	13,140,158	13,085,921
Flight equipment	229,849,035	232,035,450
Equipment under finance lease	28,087,404	33,985,116
Machinery equipment	9,930,186	9,553,310
Office equipment	1,044,598	1,009,989
Leased assets	129,372	131,786
Leasehold improvements	3,928,846	3,912,736
Construction in progress	134,888	89,425
	$ 287,220,914	$ 294,757,347

(Continued)

	December 31	
	2015	2014
Accumulated depreciation and impairment loss		
Buildings	$ 5,355,804	$ 4,794,850
Flight equipment	128,953,990	121,645,204
Equipment under finance lease	14,201,904	16,998,403
Machinery equipment	6,598,390	6,182,237
Office equipment	839,931	750,551
Leased assets	113,276	115,489
Leasehold improvements	1,528,753	1,615,547
	$ 157,592,048	$ 152,102,281
Net value	$ 129,628,866	$ 142,655,066

(Concluded)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Lease	Others	Total
Cost						
Balance at January 1, 2014	$ 938,392	$ 13,078,656	$ 222,573,614	$ 38,691,367	$ 13,501,350	$ 288,783,379
Additions	-	29,289	7,640,577	1,232,885	1,017,447	9,920,198
Disposals	(17,336)	(308)	(3,522,099)	(1,009,302)	(439,103)	(4,988,148)
Reclassification	-	(77,318)	5,343,358	(4,929,834)	612,719	948,925
Net exchange difference	32,558	55,602	-	-	4,833	92,993
Balance at December 31, 2014	$ 953,614	$ 13,085,921	$ 232,035,450	$ 33,985,116	$ 14,697,246	$ 294,757,347
Accumulated depreciation and impairment						
Balance at January 1, 2014	$ -	$ (4,298,391)	$ (108,380,142)	$ (18,198,277)	$ (8,244,501)	$ (139,121,311)
Depreciation expense	-	(551,789)	(13,670,202)	(2,461,728)	(776,727)	(17,460,446)
Disposals	-	307	3,064,001	999,511	436,566	4,500,385
Reclassification	-	77,588	(2,658,861)	2,662,091	(75,343)	5,475
Net exchange difference	-	(22,565)	-	-	(3,819)	(26,384)
Balance at December 31, 2014	$ -	$ (4,794,850)	$ (121,645,204)	$ (16,998,403)	$ (8,663,824)	$ (152,102,281)
Cost						
Balance at January 1, 2015	$ 953,614	$ 13,085,921	$ 232,035,450	$ 33,985,116	$ 14,697,246	$ 294,757,347
Additions	-	45,404	5,640,527	394,939	630,493	6,711,363
Disposals	-	(31,102)	(3,085,768)	(550,429)	(330,385)	(3,997,684)
Reclassification	-	590	(4,741,174)	(5,742,222)	165,938	(10,316,868)
Net exchange difference	22,813	39,345	-	-	4,598	66,756
Balance at December 31, 2015	$ 976,427	$ 13,140,158	$ 229,849,035	$ 28,087,404	$ 15,167,890	$ 287,220,914
\Accumulated depreciation and impairment						
Balance at January 1, 2015	$ -	$ (4,794,850)	$ (121,645,204)	$ (16,998,403)	$ (8,663,824)	$ (152,102,281)
Depreciation expense	-	(562,749)	(13,852,657)	(2,104,460)	(741,629)	(17,261,495)
Disposals	-	18,015	2,878,909	550,430	325,893	3,773,247
Impairment loss	-	-	(569,000)	-	-	(569,000)
Reclassification	-	(55)	4,233,962	4,350,529	2,250	8,586,686
Net exchange difference	-	(16,165)	-	-	(3,040)	(19,205)
Balance at December 31, 2015	$ -	$ (5,355,804)	$ (128,953,990)	$ (14,201,904)	$ (9,080,350)	$ (157,592,048)

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

Building	
Main buildings	45-55 years
Others	10-25 years
Machinery equipments	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipments	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Assets leased to others	3-5 years
Flying equipments and equipment under finance lease	
Airframe	15-25 years
Aircraft cabin	7-13 years
Engine	10-20 years
Heavy maintenance on aircraft	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	7-10 years
Repairable spare parts	7-15 years
Leased aircraft improvements	5-12 years

Taking changes in fleet composition, current and forecast market value and other technical factors into consideration, the Group recognized aircraft equipments impairment loss of $569,000 thousand in 2015.

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

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

17. INVESTMENT PROPERTIES

	December 31	
	2015	**2014**
Carrying amount		
Investment properties	$ 2,076,182	$ 2,076,461

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

The fair value of the investment properties held by the Group is $2,348,759 thousand on December 31, 2015 and 2014.

The fair value valuation was performed by the independent qualified professional valuers and the future income evaluated by management based on market transactions.

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

	Cost	Accumulated Impairment and Depreciation	Net Value
Balance on January 1, 2014	$ 2,082,390	$ (5,650)	$ 2,076,740
Additions	-	(279)	(279)
Balance on December 31, 2014	$ 2,082,390	$ (5,929)	$ 2,076,461
Balance on January 1, 2015	$ 2,082,390	$ (5,929)	$ 2,076,461
Additions	-	(279)	(279)
Balance on December 31, 2015	$ 2,082,390	$ (6,208)	$ 2,076,182

18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2014	$ 977,458	$ (488,046)	$ 489,412
Additions	230,392	-	230,392
Amortization expense	-	(55,422)	(55,422)
Reclassification	6,615	-	6,615
Balance at December 31, 2014	$ 1,214,465	$ (543,468)	$ 670,997
Balance at January 1, 2015	$ 1,214,465	$ (543,468)	$ 670,997
Additions	408,721	-	408,721
Amortization expense	-	(70,040)	(70,040)
Balance at December 31, 2015	$ 1,623,186	$ (613,508)	$ 1,009,678

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

19. OTHER ASSETS

	December 31	
	2015	2014
Current		
Other financial assets	$ 1,653,927	$ 1,145,720
Temporary payments	632,661	200,545
Prepayments	1,146,659	861,811
Restricted assets	500	904
Others	495,000	434,994
	$ 3,928,747	$ 2,643,974

(Continued)

	December 31	
	2015	2014
Noncurrent		
Prepayments for aircraft	$ 28,714,476	$ 27,585,802
Prepayments - long-term	2,522,891	1,550,942
Refundable deposits	1,489,112	1,328,227
Restricted assets	504,924	449,262
Other financial assets	14,144	14,265
Others	1,312	2,724
	$ 33,246,859	$ 30,931,222

(Concluded)

The prepayments for aircraft was the prepaid deposit, capitalized interest, etc. that the Company entered into a contract to purchase A350-900 and 777-300ER aircraft. As for the instruction of the contracts, please refer to Note 35.

20. BORROWINGS

a. Short-term loans

	December 31	
	2015	2014
Bank loans - unsecured	$ 173,289	$ 4,361,628
Interest rates	1.25%-1.8636%	1.18%-1.30%

b. Short-term and bills payable

	December 31	
	2015	2014
Commercial paper	$ 10,000	$ 2,090,000
Less: Unamortized discount on bills payable	5	1,887
	$ 9,995	$ 2,088,113
Annual discount rate	1.3%	1.108%-1.238%

c. Long-term debts

	December 31	
	2015	2014
Unsecured bank loans	$ 31,231,342	$ 30,553,456
Secured bank loans	25,342,804	32,413,444
Commercial paper		
Proceeds from issue	31,275,000	24,505,000
Less: Unamortized discount	65,529	60,464
	87,783,617	87,411,436
Less: Current portion	30,092,112	14,218,482
	$ 57,691,505	$ 73,192,954

Secured bank loans were secured by freehold land, building, machinery equipment and flight equipment, please refer to Note 34.

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

	Currency		
	New Taiwan Dollars	**U.S. Dollars**	**Japanese Yen**
Original currency			
December 31, 2015	$ 52,533,784	$ 122,827	$ -
December 31, 2014	54,477,262	267,902	44,448
Translated in New Taiwan dollars			
December 31, 2015	52,533,784	4,040,362	-
December 31, 2014	54,477,262	8,477,870	11,768
Interest rates			
December 31, 2015	1.1432%-2.613%	0.4067%-4.39%	-
December 31, 2014	1.277%-2.2074%	0.2311%-4.39%	1.975%
Periods			
December 31, 2015	2004.12.16-2029.02.04	2004.06.28-2017.09.21	-
December 31, 2014	2002.4.11-2029.02.04	2003.07.22-2020.02.26	2013.09.01-2016.08.01

The Company has note issuance facilities 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 December 31, 2015 and 2014, the commercial papers were issued at discount rates 1.2407%-1.5833% and 1.3895%-2.086%, respectively.

21. BONDS PAYABLE

	December 31	
	2015	**2014**
Secured corporate bond first-time issued in 2010	$ -	$ 1,440,000
Secured corporate bond first-time issued in 2011	2,400,000	4,200,000
Unsecured corporate bond first-time issued in 2012	-	5,345,000
Unsecured corporate bond first-time issued in 2013	10,900,000	10,900,000
Convertible bond - fifth time	2,544,106	5,023,836
	15,844,106	26,908,836
Less: Current portion and put option of convertible bonds	4,944,106	8,585,000
	$ 10,900,000	$ 18,323,836

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year secured domestic bonds - issued at par in January 2010	2010.1.25-2015.1.25	Principal repayable in January and February 2013, 2014 and 2015; indicator rate plus 1.5% interest p.a., payable quarterly	Indicator rate plus 1.50
Five-year secured domestic bonds - issued at par in February 2010; repayable in February 2013, February 2014 and February 2015; indicator rate plus 1.5% interest p.a., payable quarterly	2010.2.1-2015.2.1	Principal repayable in January and February 2013, 2014 and 2015; indicator rate plus 1.5% interest p.a., payable quarterly	Indicator rate plus 1.50
Five-year secured domestic bonds - issued at par in February 2010; repayable in February 2013, February 2014 and February 2015; indicator rate plus 1.5% interest p.a., payable quarterly	2010.2.8-2015.2.8	Principal repayable in January and February 2013, 2014 and 2015; indicator rate plus 1.5% interest p.a., payable quarterly	Indicator rate plus 1.50
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	2011.5.20-2016.5.20	Principal repayable in May of 2014, 2015 and 2016; indicator rate; payable annually	1.35
Five-year secured domestic bonds - issued at par in January 2012; repayable in January 2015; 2% interest p.a., payable semiannually	2012.1.10-2015.1.10	Principal repayable in January 2015; indicator rate; payable semi-annually	2.00
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.1.17-2018.1.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Unless bonds are converted to capital stock or redeemed, principal repayable one time in December 2018; 1.8245% discount rate p.a	-

The above indicator rate is the 90 days' commercial paper rates of Taiwan's secondary market.

In January 2012, the Group made a first issue of 2012 private unsecured bonds with aggregate face value of $5,785,000 thousand. The investors included: Taoyuan International Airport Services, Mandarin Airlines and Abacus Distribution Systems (Taiwan) which are affiliates held $440,000 thousand of its face value in aggregate and the unsecured bonds would be written off in the consolidation financial report. Private unsecured bonds were all expired and paid off in January 2015.

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

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

b. The holders can request the Company to repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights, the Company reclassified the bonds payable to "current portion of bonds payable".

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

d. Between January 26, 2014 and December 16, 2018 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT$12.24, subject to adjustment if there is capital injection by cash, stock dividend distribution, and the proportion of cash dividend per share in market price exceed 1.5%. As of December 31, 2015, there was no adjustment to the conversion price, but corporate bonds with a face value of $3,315,700 thousand had been converted to 270,890 thousand of common shares.

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

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

22. LEASING

a. Sale-leaseback-finance lease

	December 31	
	2015	2014
Minimum lease payments		
Within one year	$ 1,428,467	$ 2,727,933
Later than one year and no later than five years	5,079,133	6,945,200
Present value of minimum lease payments	$ 6,507,600	$ 9,673,133
Interest rates	1.1828%-1.5667%	1.287%-1.667%

The Group had leased engines, A330-300, A340-300 and B747-400 in total of 5 aircrafts under sale-leaseback finance sapre leases as of December 31, 2015. The lease terms started from June 2006 to April 2019. During the lease term, the Group retained all risks and rewards attached to aircraft and engines, and enjoyed the same substantive right prior to the transaction. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Finance lease

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

	December 31	
	2015	2014
Minimum lease payments - cargo terminal		
Within one year	$ 37,697	$ 31,786
Beyond one year and within five years	117,433	158,531
Beyond five years	-	3,729
	155,130	194,046
Less: Financial cost	(7,626)	(8,457)
Present value of minimum lease payments	$ 147,504	$ 185,589
Interest rate	1.15%-1.67%	1.29%-1.67%

(Continued)

	December 31	
	2015	2014
Present value of minimum lease payments - cargo terminal		
Within one year	$ 29,490	$ 30,500
Beyond one year and within five years	118,014	153,491
Beyond five years	-	1,598
	$ 147,504	$ 185,589
Discount rate	4.96%	5.04%
Total amount of present value of minimum lease payments		
Current	$ 1,457,957	$ 2,758,433
Noncurrent	5,197,147	7,100,289
	$ 6,655,104	$ 9,858,722

(Concluded)

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

China Airlines, Ltd., Mandarin Airlines, Tigerair Taiwan and Taiwan Air Cargo Terminal rented planes, hangars and etc. under various operating lease contracts expiring on various dates until September 2027. The Group does not have a bargain purchase option to acquire the leased planes and hangar at the expiration of the lease periods.

The rental rates stated in the aircraft lease agreements some are fixed and some are floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of December 31, 2015, the Group has rented eleven A330-300 planes, eight B737-800 planes, eight 777-300ER planes, eight ERJ 190 planes and six A320-200 planes under operating contracts which the lease terms range from 8 to 12 years, with an extension option.

As of December 31, 2015 and 2014, the refundable deposits paid by the Group under operating lease contracts were $952,520 thousand and $606,156 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31 2015 and 2014 were $1,304,259 thousand and $528,196 thousand.

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

	December 31	
	2015	2014
Up to 1 year	$ 8,896,478	$ 5,928,038
Over 1 year to 5 years	33,344,415	20,993,092
Over 5 years	32,325,852	18,782,575
	$ 74,566,745	$ 45,703,705

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

	For the Year Ended December 31	
	2015	2014
Minimum lease payment	$ 7,896,856	$ 4,609,857

23. OTHER PAYABLES

	December 31	
	2015	2014
Fuel cost	$ 2,038,041	$ 3,785,144
Ground service expense	1,890,418	1,406,034
Repair expense	916,442	845,514
Interest expense	262,601	349,544
Short-term employee benefits	3,310,173	1,322,847
Terminal surcharges	781,621	738,526
Commission expense	450,492	607,366
Others	2,646,760	2,041,336
	$ 12,296,548	$ 11,096,311

24. DEFERRED REVENUE

	December 31	
	2015	2014
Frequent flyer program	$ 2,610,667	$ 2,501,231
Advance ticket sales	12,365,348	10,467,840
	$ 14,976,015	$ 12,969,071
Current	13,112,086	11,163,756
Noncurrent	1,863,929	1,805,315
	$ 14,976,015	$ 12,969,071

25. PROVISIONS

	December 31	
	2015	2014
Operating lease-aircraft	$ 6,187,481	$ 4,303,780
Current	$ 20,186	$ 6,744
Non-current	6,167,295	4,297,036
	$ 6,187,481	$ 4,303,780

	Aircraft Lease Contract
Balance at January 1, 2014	$ 3,302,484
Additional provisions recognized	1,530,536
Usage	(579,080)
Effect of exchange rate changes	49,840
Balance at December 31, 2014	$ 4,303,780

(Continued)

	Aircraft Lease Contract
Balance at January 1, 2015	$ 4,303,780
Additional provisions recognized	2,079,169
Usage	(237,716)
Effect of exchange rate changes	42,248
Balance at December 31, 2015	$ 6,187,481

(Concluded)

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

26. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Employees in U.S. and Japan of China Airlines Co., Ltd. and subsidiaries are members of U.S. and Japan government retirement benefit plans. Subsidiaries should appropriate specific portion to retirement benefit plans. The obligation to the government retirement benefit plans of China Airlines Co., Ltd. and subsidiaries is appropriating specific portion amount.

b. Defined benefit plans

The defined benefit plan adopted by the Company and in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and subsidiary contribute amounts equal to 6%-9.5% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2015	2014
Present value of funded defined benefit obligation	$ 14,436,208	$ 14,073,849
Fair value of plan assets	(3,882,634)	(3,880,941)
Deficit (net defined benefit liability)	$ 10,553,574	$ 10,192,908

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2014	$ 14,902,893	$ (4,472,814)	$ 10,430,079
Service cost			
Current service cost	448,725	-	448,725
Net interest expense (income)	266,373	(77,111)	189,262
Recognized in profit or loss	715,098	(77,111)	637,987
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(26,525)	(26,525)
Actuarial (gain) loss - changes in demographic assumptions	-	-	-
Actuarial (gain) loss - changes in financial assumptions	337,889	-	337,889
Actuarial (gain) loss - experience adjustments	(386,532)	-	(386,532)
Recognized in other comprehensive income	(48,643)	(26,525)	(75,168)
Contributions from the employer	-	(642,074)	(642,074)
Benefits paid	(1,337,583)	1,337,583	-
Others	(157,916)	-	(157,916)
Balance at December 31, 2014	14,073,849	(3,880,941)	10,192,908
Service cost			
Current service cost	400,144	-	400,144
Net interest expense (income)	243,257	(67,747)	175,510
Recognized in profit or loss	643,401	(67,747)	575,654
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(40,100)	(40,100)
Actuarial (gain) loss - changes in demographic assumptions	15,335	-	15,335
Actuarial (gain) loss - changes in financial assumptions	189,433	-	189,433
Actuarial (gain) loss - experience adjustments	512,165	-	512,165
Recognized in other comprehensive income	716,933	(40,100)	676,833
Contributions from the employer	-	(768,025)	(768,025)
Benefits paid	(874,179)	874,179	-
Others	(123,796)	-	(123,796)
Balance at December 31, 2015	$ 14,436,208	$ (3,882,634)	$ 10,553,574

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2015	**2014**
Discount rate(s)	1.250%-2.000%	1.625-2.730%
Expected rate(s) of salary increase	1.000%-2.250%	1.500-3.500%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31, 2015
Discount rate(s)	
0.5% increase	$ (659,696)
0.5% decrease	715,139
Expected rate(s) of salary increase	
0.5% increase	(688,912)
0.5% decrease	646,851

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2015	**2014**
The expected contributions to the plan for the next year	$ 757,933	$ 629,653
The average duration of the defined benefit obligation	7-13 years	7-14 years

27. EQUITY

a. Share capital

Common shares

	December 31	
	2015	**2014**
Numbers of shares authorized (in thousands)	6,000,000	6,000,000
Amount of shares authorized	$ 60,000,000	$ 60,000,000
Amount of shares issued	$ 54,708,901	$ 52,491,666

The Company issued the 5th domestic unsecured convertible bonds and the amount of $2,713,900 thousand convertible bonds holders apply for conversion, and the capital shares exchanged were $221,724 thousand and entitled to change registration after issuing new shares.

The Company's board of directors had resolved to the issuance of new ordinary shares for cash on March 27, 2015 and expected to issue 700,000 thousand stock. This share subscription is already registered to the authority, but the stock market and the charge of Company's stock price is not favorable for the subscription, and therefore to consider the overall interests of the Company, the Company decide to terminate these project.

b. Capital surplus

	December 31	
	2015	**2014**
Issuance of stock in excess of par value and conversion premium	$ 552,470	$ 1,511,953
Employee stock options expired	11,747	11,747
Long-term investment	1,019	955
Gain on sale of treasury shares held by subsidiaries	1,156	1,156
Bonds payable equity component	232,023	466,604
	$ 798,415	$ 1,992,415

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 Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (but limited to a certain percentage of the Group's paid-in capital on yearly basis).

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

c. Appropriation of earnings and dividend policy

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

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors and are subject to the resolution of the shareholders in their meeting to be held on June 24, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 28.

Appropriation of earnings in 2013

On June 18, 2014, the stockholders resolved to offset the accumulated deficit in 2013. The deficit, included a net loss of $1,274,046 thousand, other retained earning of $45,381 thousand, the beginning unappropriated deficits of $6,089,872 thousand, and reversed the special reserve of $3,926,293 thousand by corporate charter. Therefore, the remaining amount of accumulated deficit before compensation was $3,483,006 thousand. The Company offset the accumulated deficit against legal reserve of $321,891 thousand. No bonus to employees was appropriated for 2013 because of a net loss in that year.

Under the Company Law, legal reserve should be appropriated until it equals the Company's paid-in capital. This reserve may be used to offset a deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Appropriation of earnings in 2014

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

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

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 287,224	
Special reserve	76,486	
Cash dividends	2,508,526	$ 0.458522382

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

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

d. Others equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Total
Balance on January 1, 2014	$ 1,843	$ (11,486)	$ 96,579	$ 86,936
Exchange differences arising on translating the foreign operations	118,083	-	-	118,083

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedge	Total
Unrealized gain (loss) on available-for-sale financial assets	$ -	$ 17,356	$ -	$ 17,356
Cash flow hedge on changes in fair value of hedging instruments	-	-	(2,934,947)	(2,934,947)
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	397,424	397,424
Share of associates accounted for using the equity method	-	954	-	954
Effect of income tax	(20,074)	(2,809)	431,379	408,496
Balance on December 31, 2014	$ 99,852	$ 4,015	$ (2,009,565)	$ (1,905,698)
Balance on January 1, 2015	$ 99,852	$ 4,015	$ (2,009,565)	$ (1,905,698)
Exchange differences arising on translating the foreign operations	67,413	-	-	67,413
Unrealized gain (loss) on available-for-sale financial assets	-	(3,025)	-	(3,025)
Cash flow hedge on changes in fair value of hedging instruments	-	-	(405,674)	(405,674)
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	2,555,302	2,555,302
Share of associates accounted for using the equity method	-	765		765
Effect of income tax	(9,306)	-	(366,060)	(375,366)
Balance on December 31, 2015	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)

(Concluded)

e. Non-controlling interest

	For the Year Ended December 31	
	2015	2014
Beginning balance	$ 2,321,737	$ 2,076,428
Net income attributable to non-controlling interest	162,496	151,585
Foreign exchange difference	102	1,862
Unrealized gain or loss on financial instrument	(3,368)	111
Cash flow hedge	(1,275)	-

(Continued)

	For the Year Ended December 31	
	2015	2014
Actuarial gains and losses on defined benefit plan	$ (42,305)	$ (12,384)
Effect on income tax	8,278	8,071
Issue of common shares by subsidiaries	(1,965)	-
Acquisition of non-controlling interests in subsidiaries	-	200,000
Dividends paid by subsidiaries	(157,053)	(103,936)
Ending balance	$ 2,286,647	$ 2,321,737

(Concluded)

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of December 31, 2015 and 2014 were as follows:

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
Year ended December 31, 2015			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889
Year ended December 31, 2014			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2015			
Mandarin Airlines	2,075	$ 24,895	$ 24,895
Hwa Hsia	814	9,770	9,770
		$ 34,665	$ 34,665
December 31, 2014			
Mandarin Airlines	2,075	$ 30,082	$ 30,082
Hwa Hsia	814	11,805	11,805
		$ 41,887	$ 41,887

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

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

28. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2015	2014
Passenger	$ 94,962,055	$ 97,137,071
Cargo	40,292,840	43,629,974
Others	9,801,322	9,814,697
	$ 145,056,217	$ 150,581,742

b. Other income

	For the Year Ended December 31	
	2015	2014
Interest income	$ 466,923	$ 441,968
Subsidy income	184,512	194,671
Dividend income	1,884,052	29,522
Others	695,692	428,255
	$ 3,231,179	$ 1,094,416

c. Other gains and losses

	For the Year Ended December 31	
	2015	2014
Gain on disposal property, plant and equipment	$ 13,155	$ 52,340
Net gain arising on financial assets classified as held for trading	150,871	78,742
Gain on disposal of available-for-sale financial assets	-	6,557
Litigation settlement	-	(1,212,121)
Gain or loss on foreign exchange, net	244,045	(44,366)
Impairment loss on assets held for sale	(1,899,372)	-
Impairment loss on property, plant and equipment	(569,000)	-
Others	(897,537)	(622,117)
	$ (2,957,838)	$ (1,740,965)

The Company along with worldwide leading carriers was named as defendants in the civil class action by global air freight forwarders alleging the 2000-2006 fuel surcharges levied on the shipments to and from the United States in violation of US Antitrust Laws. The board of directors reached the resolution for settlement of US$90,000 thousand in three installments starting from 2014 on annual basis, and US$50,000 thousand of which was recognized as operating cost in the financial report for the year of 2013. For consistency, the Company reclassified the said operating cost to non-operating loss and the remaining balances recognized as non-operating loss of 2014 as well.

d. Financial cost

	For the Year Ended December 31	
	2015	2014
Interest expense		
Bonds payable	$ 292,242	$ 539,913
Bank loan	1,343,420	1,299,199
Interest on obligations under financial lease	140,912	172,584
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss	7,219	7,428
	$ 1,783,793	$ 2,019,124

Information of interest capitalization was as follows:

	For the Year Ended December 31	
	2015	2014
Capitalization interest	$ 344,835	$ 211,409
Capitalization rate	1.74%-1.80%	1.77%-1.82%

e. Depreciation and amortization expense

	For the Year Ended December 31	
	2015	2014
Property, plant, equipment	$ 17,261,495	$ 17,460,446
Investment property	279	279
Intangible asset	70,040	55,422
Depreciation and amortization expense	$ 17,331,814	$ 17,516,147
An analysis of depreciation by function		
Operating cost	$ 16,507,474	$ 16,671,783
Operating expense	754,300	788,942
	$ 17,261,774	$ 17,460,725
An analysis of amortization by function		
Operating cost	$ 810	$ 981
Operating expense	69,230	54,441
	$ 70,040	$ 55,422

f. Employment benefit expense

	For the Year Ended December 31	
	2015	2014
Post-employment benefit		
Defined contribution plan	$ 375,888	$ 332,011
Defined benefit plan	575,654	637,987
	$ 951,542	$ 969,998

(Continued)

	For the Year Ended December 31	
	2015	2014
Other employee benefits		
Salary expenses	$ 18,509,223	$ 14,970,181
Personnel service expenses	4,806,080	3,401,097
	$ 23,315,303	$ 18,371,278
An analysis of employee benefit expense by function		
Operating cost	$ 19,701,524	$ 15,560,500
Operating expense	4,565,321	3,780,776
	$ 24,266,845	$ 19,341,276

(Concluded)

The existing Articles of Incorporation of the Company stipulate to distribute bonus to employees at the rates 3% of net income. No bonus to employees was estimated for 2014 because of a net loss in that year.

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

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

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors resolved by the shareholders' meeting in 2015 and 2014 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

29. INCOME TAX

a. Income tax expense recognized in profit or loss

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

	For the Year Ended December 31	
	2015	2014
Current tax		
Current year	$ 209,186	$ 182,336
Prior year adjustment	1,985	(8,283)
Deferred tax		
Current year	997,504	785,861
Income tax expense recognized in profit or loss	$ 1,208,675	$ 959,914

A reconciliation of accounting profit and income tax expense were as follows:

	For the Year Ended December 31	
	2015	2014
Profit before tax	$ 7,134,885	$ 362,426
Income tax expense calculated at the statutory rate (17%)	$ 1,212,930	$ 61,612
Effect on different tax of subsidiaries govern by other region	20,960	3,851
Effect on adjustment to income tax		
Undeductible expenses in determining taxable income	16,798	89,660
Temporary differences	517,465	94,788
Tax-exempt income	(67,063)	(100,580)
Additional income tax under the Alternative Minimum Tax Act	1	-
Loss carryforwards - current used	(1,648,737)	(57,359)
Loss carryforwards - generated	108,570	39,750
Oversea income tax expense	57,378	50,614
Deferred tax		
Temporary differences	944,522	775,663
Unrecognized loss carryforwards, investment tax credits and temporary difference	43,866	10,198
Adjustments for prior years' tax	1,985	(8,283)
Income tax expense recognized in profit or loss	$ 1,208,675	$ 959,914

b. Income tax recognized in other comprehensive income

	2015	2014
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ (9,061)	$ (14,087)
Unrealized gain on available-for-sale financial assets	-	(2,809)
Hedging instruments fair value revaluation for cash flow hedging	(365,220)	431,379
Actuarial gain or loss on defined benefit plan	115,062	(21,027)
Total income tax recognized in other comprehensive income	$ (259,219)	$ 393,456

c. Deferred tax assets and liabilities

For the year ended December 31, 2015

Deferred tax assets	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Temporary differences					
Defined benefit plan	$ 1,735,354	$ (50,813)	$ 105,270	$ -	$ 1,789,811
Dynasty flyer program	432,196	20,753	-	-	452,949
Maintenance reserve	726,728	310,761	-	-	1,037,489
Allowance for reduction of inventory	150,185	24,465	-	-	174,650
Others	1,080,038	180,419	(365,243)	(386)	894,828
Loss carryforward	4,399,542	(1,560,854)	-	-	2,838,688
	$ 8,524,043	$ (1,075,269)	$ (259,973)	$ (386)	$ 7,188,415

(Continued)

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gain	$ 108,903	$ (106,369)	$ -	$ -	$ 2,534
Depreciation difference from fixed assets	126,488	(1,480)	-	-	125,008
Defined benefits plan	9,792	-	(9,792)	-	-
Others	178,406	20,968	9,038	4,727	213,139
	$ 423,589	$ (86,881)	$ (754)	$ 4,727	$ 340,681

(Concluded)

For the year ended December 31, 2014

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plan	$ 1,765,145	$ (15,611)	$ (14,180)	$ -	$ 1,735,354
Dynasty flyer program	448,617	(16,421)	-	-	432,196
Depreciation of significant	1,062,237	(1,062,237)	-	-	-
Maintenance reserve	566,127	160,601	-	-	726,728
Depreciation of major spare part	114,947	(114,947)	-	-	-
Allowance for reduction of inventory	329,460	(179,275)	-	-	150,185
Others	532,626	132,530	415,175	(293)	1,080,038
Loss carryforward	4,311,114	88,428	-	-	4,399,542
	$ 9,130,273	$ (1,006,932)	$ 400,995	$ (293)	$ 8,524,043
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gain	$ 241,995	$ (133,092)	$ -	$ -	$ 108,903
Depreciation difference from fixed assets	127,862	(1,374)	-	-	126,488
Defined benefits plan	3,720	(775)	6,847	-	9,792
Others	255,243	(85,830)	692	8,301	178,406
	$ 628,820	$ (221,071)	$ 7,539	$ 8,301	$ 423,589

Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets.

	December 31 2015	December 31 2014
Loss carryforwards		
2018	$ -	$ 57,044
2019	4,500,000	4,952,493
2020	95,682	105,874
2021	80,080	80,080
2022	125,538	125,568
2023	127,797	248,077
2024	233,703	34,048
2025	638,502	-
	$ 5,801,302	$ 5,603,184

(Continued)

	December 31	
	2015	**2014**
Investment tax credits		
Automated equipment	$ -	$ 24,691
Difference in depreciation	$ 6,743	$ 25,940

(Concluded)

d. Unused tax loss carryforwards as of December 31, 2015 were as follows:

Expiry Year	**Unused Amount**
China Airlines, Ltd.	
2019	$ 17,674,629
2021	2,899,496
2022	598,471
	$ 21,172,596
Mandarin Airline Co., Ltd.	
2023	$ 51,097
Tigerair Taiwan Co., Ltd.	
2024	$ 199,654
2025	586,602
	$ 786,256
Cal Hotel Co., Ltd.	
2020	$ 95,681
2021	45,156
2022	9,617
	$ 150,454
Taiwan Air Cargo Terminal Limited	
2021	$ 34,923
2022	115,951
2023	102,248
2024	34,048
2025	33,775
	$ 320,945
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	
2025	$ 18,124

e. Integrated income tax

	December 31	
	2015	2014
Imputation credits accounts	$ 539,835	$ 385,435

Expected creditable tax ratio on December 31, 2015 was 18.79%.

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.

f. Income tax assessment

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

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

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

As of December 31, 2015, the Court has not reached any decisions on this administrative proceeding, and thus the company has set aside a provision for additional tax payable and related fine in the amount of $168,155 thousand.

30. EARNING (LOSS) PER SHARE

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

	For the Year Ended December 31	
	2015	2014
Basic earnings (loss) per share	$ 1.06	$ (0.14)
Diluted earnings (loss) per share	$ 1.00	$ (0.14)

	For the Year Ended December 31	
	2015	**2014**
Earnings (loss) used in the computation of basic earnings per share	$ 5,763,714	$ (749,073)
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	47,716	-
Earnings (loss) used in the computation of diluted earnings per share	$ 5,811,430	$ (749,073)

	For the Year Ended December 31	
	2015	**2014**
Weighted average number of ordinary shares in computation of basic earnings per share	5,432,728	5,199,401
Effect of potentially dilutive ordinary shares:		
Convertible bonds	255,186	-
Employees' compensation or bonus issue to employees	150,850	-
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	5,838,764	5,199,401

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

31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Group needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

32. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

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

	December 31			
	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 15,844,106	$ 16,459,680	$ 26,908,836	$ 27,431,520
Loans and debt	87,783,617	87,944,264	87,411,436	87,530,338

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of December 31, 2015 and 2014, 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 0.433% and 0.436%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

2) 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:

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

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

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

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 65,528	$ -	$ 65,528
Beneficial certificates	478,508	-	-	478,508
	$ 478,508	$ 65,528	$ -	$ 544,036

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in domestic	$ 19,080	$ -	$ -	$ 19,080
Derivative financial assets for hedging	$ -	$ 51,060	$ 12,738	$ 63,798
Derivative financial liabilities for hedging	$ -	$ 12,702	$ 312,278	$ 324,980

(Concluded)

December 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 46,812	$ -	$ 46,812
Beneficial certificates	189,002	-	-	189,002
	$ 189,002	$ 46,812	$ -	$ 235,814
Available-for-sale financial assets				
Securities listed in domestic	$ 28,881	$ -	$ -	$ 28,881
Derivative financial assets for hedging	$ -	$ 727	$ 42,850	$ 43,577
Derivative financial liabilities for hedging	$ -	$ 5,150	$ 2,460,000	$ 2,465,150

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

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

Financial Instruments	Valuation Techniques and Inputs
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.

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

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

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

b. Categories of financial instruments

	December 31	
	2015	**2014**
Financial assets		
Financial assets at FVTPL	$ 544,036	$ 235,814
Available-for-sale financial assets (Note 3)	242,991	498,198
Derivative financial assets for hedging	63,798	43,577
Loans and receivables (Note 1)	35,862,163	33,677,439
	$ 36,712,988	$ 34,455,028
Financial liabilities		
Derivative financial liabilities for hedging	$ 324,980	$ 2,465,150
Financial liabilities at amortized cost (Note 2)	125,241,381	144,488,117
	$ 125,566,361	$ 146,953,267

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

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

Note 3: Including the financial assets measured at cost.

c. Financial risk management objectives and policies

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

In addition, the Group has a risk 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 risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

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

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be an decrease in pre-tax profit in 2015 $157,849 thousand and decrease in pre-tax profit in 2014 $174,778 thousand, respectively.

b) Interest rate risk

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

The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	December 31	
	2015	**2014**
Fair value interest rate risk		
Financial liabilities	$ 16,723,881	$ 33,026,655
Cash flow interest rate risk		
Financial liabilities	93,742,231	97,591,031

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 100 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 100 basis points higher and had all other variables been held constant, the Group's pretax profit for the year ended December 31, 2015 would have decreased by $685,000 thousand.

Had interest rates increased 100 basis point and had all other variables been held constant, the Group's pretax profit for the year ended December 31, 2014 would have decreased by $687,100 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 Year Ended December 31			
	2015		2014	
	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%	$ 10,084	$ (29,805)	$ 31,646	$ 316,498
Fuel price decrease 5%	(10,188)	(110,077)	(32,545)	(134,513)

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Group has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers.

Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Group's finance department. The Group's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, the risk of Counterparties fail to discharge an obligation is low, therefore there is no significant credit risk.

3) Liquidity risk

The objective of the Group's management of liquidity is to maintain cash and cash equivalents are sufficient for operating purpose, marketable securities with high liquidity and sufficient Loan Commitments and ensure the Group has adequate financial flexibility.

Liquidity and interest risk rate tables

The following table shows the remaining contractual maturity analysis of the Group's financial liabilities with agreed-upon repayment periods, which were based on the date the Group may be required to pay the first repayment and financial liabilities is evaluated based on undiscounted cash flows, including cash flows of interest and principal.

Bank loans with a repayment on demand clause were included in the second column of the table below regardless of whether or not the banks would choose to exercise early their rights to repayment. The maturity dates for other nonderivative financial liabilities were based on the agreed-upon repayment dates. The Group's liquidity analysis for its derivative financial instruments is also shown in the following table. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross cash inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by yield curves at the end of the reporting period.

December 31, 2015

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.2934	$ 364,897	$ 1,101,266	$ 1,548,611	$ 3,647,955	$ -
Floating interest rate liabilities	1.325	6,987,461	22,453,633	33,930,613	20,588,242	2,225,669
Fixed interest rate liabilities	4.374	175,109	475,464	463,574	413,789	97,664
Derivative instruments	-	114,455	205,861	4,664	-	-
Bonds payable	1.3798	-	4,944,106	-	10,900,000	-
		$ 7,641,922	$ 29,180,330	$ 35,947,462	$ 35,549,986	$ 2,323,333

December 31, 2014

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.4315	$ 533,643	$ 2,226,077	$ 1,665,836	$ 5,437,893	$ 3,729
Floating interest rate liabilities	1.4627	3,377,496	10,224,542	27,603,968	41,817,988	2,160,706
Fixed interest rate liabilities	4.374	152,969	462,498	633,285	818,070	120,197
Derivative instruments	-	2,504	21,879	394	405	-
Bonds payable	1.3718	6,785,000	-	1,800,000	15,923,836	-
		$ 10,851,612	$ 12,934,996	$ 31,703,483	$ 63,998,192	$ 2,284,632

Loan commitments

	December 31	
	2015	2014
Unused bank loan limit (unsecured)	$ 22,172,000	$ 18,202,000

33. RELATED-PARTY TRANSACTIONS

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

a. Operating transactions

	Sales of Goods For the Year Ended December 31		Purchases of Goods For the Year Ended December 31	
	2015	2014	2015	2014
Associates	$ 2,321	$ 4,608	$ 581,173	$ 587,239
Jointly controlled entities	$ 13,950	$ 16,558	$ 1,531,649	$ 1,439,844
Major stockholder	$ 34,835	$ 28,605	$ 78,374	$ 60,913

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

	December 31	
	2015	2014
Associates	$ 182	$ 240
Jointly controlled entities	599	1,749
Major stockholder	3,093	4,626
	$ 3,874	$ 6,615

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

	December 31	
	2015	2014
Associates	$ 98,245	$ 65,192
Jointly controlled entities	388,371	365,493
Major stockholder	7,138	4,699
	$ 493,754	$ 435,384

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 (operating lease)

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. In 2015 and 2014, the Company had paid rentals of about $78,374 thousand and $60,913 thousand, respectively.

c. Endorsements and guarantees

	December 31			
	2015		2014	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
Cal Park	$ 3,400,000	$ 2,739,000	$ 3,400,000	$ 2,905,000
Taiwan Air Cargo Terminal	1,080,000	486,815	1,080,000	582,671
Freighter Prince Ltd.	236,629	236,629	279,497	279,497
Cal Hotel	180,000	6,343	180,000	12,686
Tigerair Taiwan	937,895	447,399	902,278	-

d. Compensation of key management personnel

	For the Year Ended December 31	
	2015	2014
Short-term employee benefits	$ 45,813	$ 39,282
Post-employment benefits	3,865	2,595
	$ 49,678	$ 41,877

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

34. PLEDGED ASSETS

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

	December 31	
	2015	2014
Property, plant and equipment	$ 90,642,565	$ 104,255,700
Restricted assets - noncurrent		
Pledged certificate deposits	268,790	170,669
US treasury bill	236,634	279,497
	$ 91,147,989	$ 104,705,866

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

35. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2015, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

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

Prepayments for aircraft purchases were as follows:

	December 31	
	2015	2014
	US$ 685,231 thousand	US$ 449,216 thousand

b. In December 2012, the Company entered into a contract to buy six 777-300ER planes from the Boeing Company, with the option to buy six more 777-300ER planes, at aggregate purchase prices of US$2,067,261 thousand and US$2,213,015 thousand, respectively. Expected delivery slots of aircrafts are from 2015 to 2016. The board of the Company has resolved to transfer the purchase right of the confirm orders for six aircrafts to the aircraft leasing Group (SKYHIGH XXXVII Leasing Company Limited) then leasing the aircrafts back. As of December 31 2015, the Company had received 4 aircrafts and the refund of prepayments from leasing Company.

Prepayments for aircraft purchase were as follows:

	December 31	
	2015	2014
	US$ 197,912 thousand	US$ 418,325 thousand

c. For the future development of Company business, the Company entered into one 737-800 aircraft lease contract and letter of intention about six 737-800 aircrafts. The expected delivery slot will be from March 2016.

d. Tigerair Taiwan entered into the four A320-200 aircrafts lease contract with 10 years term on July, November and December 2015 respectively. One of aircraft had been delivered in January 2016. The expected delivery of other three aircrafts will be in June 2016, January 2017 and December 2017, respectively.

e. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board in 2003. The total estimated expense of the construction project was $8,490,000 thousand. Designation of project was from 2004 and the construction began in 2008. TACT filed application for a 10-year extension of the COP for the cargo terminals in Taiwan 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 revised the total amount to $6,840,000 thousand.

As of December 31, 2015, TACT had signed the following construction contracts with non-related 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 December 2015, the cumulated consultant service expense and construction equipment had amounted to $412,904 thousand (VAT included) and $4,120,716 thousand (VAT included), respectively. Upon completion of the projects, the amounts of $410,041 thousand (VAT included) and $4,067,453 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

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

f. TACT should pay royalties to CAA during the chartered operation period. The calculation is based on annual sales (including operating revenue and nonoperating revenue but excluding the rental revenue from specific district), and CAA has the option to adjust the royalty rates every 3 years starting from the date of transfer of the chartered operation right on the basis of actual revenue and expenditure. The royalty rates are based on CAA letter order No. 1000021973 and have remained the same as those in the original contract signed in April 2012; these rates were listed as follows:

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%

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

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

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

CAL Park should pay construction and operation security deposits of $100,000 thousand (using a refundable certificate deposit recognized under deposits-in). If CAL Park complies with the contract terms within three months amount after the initial operation date, half of the security deposits will be refunded interest free, and the remaining amount will be refunded within three months after the end of the operating period and the completion of asset transfer. In 2015, CAL Park received refunded security deposits of $50,000 thousand with no interest.

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

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

h. The Company has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action filed with the US Northern District Court of California by some passengers, who alleged that there was an antitrust violation. The Company has properly joined the defendants' Joint Defense Group. The litigation is at the pretrial stage, and no evidence supporting the plaintiffs' allegation has been raised so far.

i. The Company has reached a settlement with class plaintiffs of "Air Cargo Antitrust Class Action" by US$9,000 thousand. One of plaintiffs - DHL Global Forwarding (DHL) et al. has opted out from class plaintiffs. In early 2015, DHL has filed civil lawsuit against the Company. The Company already appointed lawyer to duly react.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 371,091	32.8947	$ 12,206,940
EUR	16,153	35.9712	569,778
HKD	230,469	4.2445	978,224

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
JPY	$ 1,769,067	6.2731	$ 483,136
CNY	2,105,839	5.0659	10,667,121
Financial assets			
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	6.2731	1,265,198
CNY	150,973	5.0659	764,813

(Concluded)

December 31, 2014

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 211,064	31.5433	$ 6,657,656
EUR	18,179	38.1244	693,065
HKD	317,548	4.0742	1,293,753
JPY	1,579,625	0.2648	418,274
CNY	2,122,011	5.0739	10,766,934
Financial assets			
Monetary items			
USD	407,629	31.5433	12,882,711
EUR	4,959	38.1244	190,246
HKD	77,049	4.0742	313,913
JPY	4,683,138	0.2648	1,240,089
CNY	155,965	5.0739	791,414

For the years ended December 31, 2015 and 2014, net foreign exchange gains (losses) were $244,045 thousand and $(44,366) 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 Airlines, Ltd. and its subsidiaries: Table 7 (attached)

38. SEGMENT INFORMATION

a. Segment information

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

	For the Year Ended December 31, 2015			
	Air Transportation	**Others**	**Adjustment and Write-off**	**Total**
Operating revenue	$ 144,223,961	$ 7,526,765	$ (6,694,509)	$ 145,056,217
Operation profit and losses	$ 7,264,754	$ 843,152	$ 21,291	$ 8,129,197
Interest revenue				466,923
Investment income accounted for by the equity method				516,140
Revenue				3,038,744
Financial cost				(1,783,793)
Expense				(3,232,326)
Profit before income tax				$ 7,134,885
Identifiable assets	$ 122,602,185	$ 9,671,914	$ (53)	$ 132,274,046
Investment accounted for by the equity method				2,877,777
Assets				86,774,486
Total assets				$ 221,926,309

	For the Year Ended December 31, 2014			
	Air Transportation	Others	Adjustment and Write-off	Total
Operating revenue	$ 148,630,115	$ 7,221,423	$ (5,269,796)	$ 150,581,742
Operation profit and losses	$ 1,712,118	$ 770,129	$ 36,500	$ 2,518,747
Interest revenue				441,968
Investment income accounted for by the equity method				509,352
Revenue				884,877
Financial cost				(2,019,124)
Expense				(1,973,394)
Profit before income tax				$ 362,426
Identifiable assets	$ 134,911,503	$ 9,841,365	$ (21,345)	$ 144,731,523
Investment accounted for by the equity method				2,806,823
Assets				81,535,681
Total assets				$ 229,074,027

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2015 and 2014 are listed below:

	For the Year Ended December 31, 2015								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 43,255,614	$ 26,519,512	$ 31,150,308	$ 12,529,410	$ 4,318,055	$ 20,470,330	$ 13,507,497	$ (6,694,509)	$ 145,056,217
Operation profit and losses	$ 2,439,067	$ 1,321,000	$ (827,756)	$ 69,964	$ 229,823	$ 2,141,393	$ 2,734,416	$ 21,290	$ 8,129,197
Interest revenue									466,923
Investment income accounted for by the equity method									516,140
Revenue									3,038,744
Interest expense									(1,783,793)
Expense									(3,232,326)
Profit before income tax									$ 7,134,885
Identifiable assets	$ 1,459,834	$ 11,477	$ 145,471	$ 5,229	$ 4,354	$ 14,091	$ 130,633,643	$ (53)	$ 132,274,046
Investment accounted for by the equity method									2,877,777
Assets									86,774,486
Total assets									$ 221,926,309

	For the Year Ended December 31, 2014								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 46,252,779	$ 25,391,216	$ 33,151,817	$ 14,136,428	$ 3,848,389	$ 20,162,643	$ 13,062,260	$ (5,423,790)	$ 150,581,742
Operation profit and losses	$ (3,526,128)	$ 3,156,399	$ (1,766,713)	$ (2,036,200)	$ 1,239	$ 3,562,263	$ 3,026,716	$ 101,171	$ 2,518,747
Interest revenue									441,968
Investment income accounted for by the equity method									509,352
Revenue									884,877
Interest expense									(2,019,124)
Expense									(1,973,394)
Profit before income tax									$ 362,426
Identifiable assets	$ 1,777,721	$ 111,276	$ 207,083	$ 19,771	$ 7,341	$ 17,100	$ 142,612,576	$ (21,345)	$ 144,731,523
Investment accounted for by the equity method									2,806,823
Assets									81,535,681
Total assets									$ 229,074,027

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limit on Each Counter-party's Endorsement/ Guarantee Amount (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	$ 11,653,979	$ 3,400,000	$ 3,400,000	$ 2,739,000	$ -	5.83	$ 29,134,948	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,653,979	1,080,000	1,080,000	486,815	-	1.85	29,134,948	Y	N	N
		Freighter Prince Ltd.	100% subsidiary	11,653,979	290,530	236,629	236,629	236,629	0.41	29,134,948	Y	N	N
		Cal Hotel	100% subsidiary	11,653,979	180,000	180,000	6,343	-	0.31	29,134,948	Y	N	N
		Tigerair Taiwan Ltd.	90% subsidiary by direct and indirect holdings	11,653,979	937,895	937,895	447,399	-	1.61	29,134,948	Y	N	N

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2015
(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	December 31, 2015				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines (the "Company")	Stock							
	Everest Investment Holdings Ltd. - common stock	-	Financial assets carried at cost - noncurrent	1,359,368	$ 52,704	13.59	$ 233,454	Note 1
	Everest Investment Holdings Ltd. - preferred stock	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	16,749	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	34,525	-
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	592,500	5,925	6.22	742	-
	Beneficial certificates							
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,625,675.80	100,029	-	100,029	-
Mandarin Airlines	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	24,895	-	24,895	-
	Beneficial certificates							
	Fuh Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,245,429	59,709	-	59,709	-
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	33,303	-	33,303	-
	Deutsche America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	33,303	-	33,264	-
Cal-Asia Investment	Stock							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	75,792	5.83	17,608	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	21,995	5.45	19,930	Note 2
Abacus Distribution Systems (Taiwan)	Beneficial certificates							
	Mirae Asset Solomon Money Market Fund	-	Financial assets at fair value through profit or loss - current	265,726	3,311	-	3,311	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	748,755	10,001	-	10,001	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,637,003	57,392	-	57,392	-
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,523,758	56,331	-	56,331	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2015				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Allianz Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,156,063	$ 76,149	-	$ 76,149	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,798,747	42,253	-	42,253	-
Taiwan Airport Services	<u>Stock</u>							
	TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,287,786	19,080	0.40	19,080	-
Hwa Hsia	<u>Stock</u>							
	China Airlines	Parent company	Available-for-sale financial asset - current	814,152	9,770	-	9,770	-
	<u>Beneficial certificates</u>							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,668	-	4,668	-
Hwa Sin	<u>Beneficial certificates</u>							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	157,070	2,098	-	2,098	-

Note 1: The subsidiary’s net asset value was $233,454 thousand, which included common stock and preferred stock as of and for the year ended December 31, 2015.

Note 2: The Company does not issue stocks because it is a limited company.

(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 YEAR ENDED DECEMBER 31, 2015
(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”)	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 383,750	0.33	30 days	$ -	-	$ (34,245)	2.14	-
	Hua Hsia	Subsidiary	Purchase	320,239	0.28	2 months	-	-	(77,938)	4.88	-
	Mandarin Airlines	Subsidiary	Sale	(3,023,799)	2.27	2 months	-	-	515,588	6.24	-
	Mandarin Airlines	Subsidiary	Purchase	284,135	0.25	2 months	-	-	(254,134)	15.90	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,431,831	1.24	60 days	-	-	(370,608)	23.19	-
	Cal Park	Subsidiary	Purchase	217,210	0.19	2 months	-	-	(90,504)	5.66	-
	Taiwan Airport Services	Subsidiary	Purchase	400,777	0.35	40 days	-	-	(68,006)	4.25	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,110,362	0.96	40 days	-	-	(309,627)	19.37	-
	Global Sky Express	Subsidiary	Sale	(126,973)	0.10	15 days	-	-	4,343	0.05	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	224,895	0.19	60 days	-	-	(45,445)	2.84	-
	China Aircraft Services	Equity-method investee	Purchase	210,328	0.18	30 days	-	-	(34,982)	2.19	-
	Cal Hotel	Subsidiary	Purchase	172,293	0.15	1 month	-	-	(16,846)	1.05	
	Tigerair Taiwan Co., Ltd.	Subsidiary	Sale	(217,581)	0.16	1 month	-	-	5,850	0.07	

CHINA AIRLINES, LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2015
(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	$ 515,588	6.29	$ -	-	$ 326,977	$ -
Mandarin Airlines	China Airlines	Parent company	254,134	1.01	-	-	219,556	-
China Pacific Catering Services	China Airlines	Parent company	370,608	3.98	-	-	253,723	-
Taoyuan International Airport Service	China Airlines	Parent company	309,627	3.64	-	-	308,227	-

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

TABLE 5

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2015			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2015	December 31, 2014	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	$ 1,510,824	$ 14,112	$ 14,112	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,367,156	107,290	120,013	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,260,095	(90,472)	(48,856)	-
	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	1,239,445	30,414	30,414	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	705,134	452,964	231,012	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	722,143	306,871	150,367	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 47,016	7,172,346	100.00	604,029	25,252	25,252	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	438,101	183,712	172,571	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	490,824	231,236	46,247	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,000	24.50	263,091	381,122	93,375	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	262,493	138,861	65,753	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	244,903	162,335	58,084	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	313,875	65,698	65,698	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	150,654	150,654	13,293,000	28.48	249,317	57,491	16,373	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	161,869	42,689	23,479	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000	50,000	50,000	100.00	89,858	21,211	21,211	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	29,152	4,276	4,276	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	28,544	4,146	2,114	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,647	7,685	1,922	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	33	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	33	-	-	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,600,000	1,600,000	160,000,000	80.00	977,323	(575,132)	(460,106)	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.			60,000	-	6,000,000	100.00	41,731	(18,269)	(18,269)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	122,165	(575,132)	(57,513)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport Services	3,574	-	146,388	0.34	1,857	138,861	14	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	41,908	7,295	6,759	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	386,806	20,910	20,910	Note 3
Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	Building security and maintenance services	10,000	10,000	1,000,000	100.00	21,210	7,179	7,179	-

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

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

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

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

Note 5: On December 18, 2015 the board of Science Park Logistics (SPL) approved the issuance of common stock for cash and with the date of right issues granted on was December 25, 2015. The board of Company has reached an agreement to purchase $64,091 thousand which had been remitted to SPL by December 31, 2015. SPL completed the registration of this subscription on January 22, 2016.

TABLE 6

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Thousands of New Taiwan Dollars/Renminibi/U.S. Dollars, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2015	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2015	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2015	Accumulated Inward Remittance of Earnings as of December 31, 2015
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,137,183 (RMB 224,480)	Indirect (Note 1)	$ 137,697 (US$ 4,186)	$ -	$ -	$ 137,697 (US$ 4,186)	$ 67,936 (RMB 13,218)	14.00	$ 9,511 (RMB 1,851)	$ 248,044 (RMB 48,964)	$ 59,671 (US$ 1,814) (Note 4)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	70,922 (RMB 14,000)	Indirect (Note 1)	64,046 (US$ 1,947)	-	-	64,046 (US$ 1,947)	83,930 (RMB 16,330)	14.00	11,700 (RMB 2,286)	112,910 (RMB 22,289)	
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,213,487 (US$ 36,890)	Indirect (Note 1)	70,757 (US$ 2,151)	-	-	70,757 (US$ 2,151)		5.83		75,790 (RMB 14,961)	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	383,651 (US$ 11,663)	Indirect (Note 1)	20,921 (US$ 636)	-	-	20,921 (US$ 636)		5.45		21,996 (RMB 4,342)	
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	101,974 (US$ 3,100)	Indirect (Note 2)	8,158 (US$ 248)	-	-	8,158 (US$ 248)		8.00		8,158 (US$ 248)	
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	32,895 (US$ 1,000)	Indirect (Note 3)	5,658 (US$ 172)	-	-	5,658 (US$ 172)		17.15		5,658 (US$ 172)	

Accumulated Investment in Mainland China as of December 31, 2015	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
$307,237 (US$9,340)	$535,534 (Note 5)	$36,333,926 (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, 2015	Remittance of Funds: Outward	Remittance of Funds: Inward	Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2015	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2015	Accumulated Repatriation of Investment Income as of December 31, 2015
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,137,183 (RMB 224,480)	Indirect (Note 7)	$ 135,132 (US$ 4,108)	$ -	$ -	$ 135,132 (US$ 4,108)	$ 67,936 (RMB 13,218)	14.00	$ 8,938 (RMB 1,851)	$ 246,621 (RMB 48,683)	$ 67,632 (US$ 2,056)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	70,922 (RMB 14,000)	Indirect (Note 7)	63,388 (US$ 1,927)	-	-	63,388 (US$ 1,927)	83,930 (RMB 16,330)	14.00	10,662 (RMB 2,286)	113,156 (RMB 22,337)	13,980 (US$ 425)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2015	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$195,559 (US$5,945)	$195,559 (US$5,945)	$405,659 (Note 6)

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

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

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

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

Note 5: The amount comprised US$14,518,757, RMB4,200,000 and NT$36,666,667.

Note 6: The limit stated in the Investment Commission’s regulation, “Investment or Technical Cooperation in Mainland China Adjudgment Rule,” 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)