China Airlines, Ltd.

**Financial Statements for the
Years Ended December 31, 2014 and 2013 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of China Airlines, Ltd. (the "Company") as of December 31, 2014 and 2013 and the related statements of comprehensive income, changes in equity and cash flows for the years ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, or other regulations.

March 27, 2015

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

CHINA AIRLINES, LTD.

BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014		2013	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 17 and 31)	$ 15,828,488	7	$ 14,970,817	7
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	46,812	-	23,254	-
Available-for-sale financial assets - current (Notes 4, 8 and 31)	-	-	72,440	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 31)	42,850	-	135,003	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 11 and 31)	8,900,395	4	7,364,392	4
Notes and accounts - related parties (Notes 31 and 32)	496,872	1	456,218	-
Other receivables	551,185	-	506,379	-
Current tax assets (Notes 4, 27 and 31)	4,171	-	7,794	-
Inventories, net (Notes 4 and 12)	7,096,376	3	6,677,081	3
Other current assets (Notes 6 and 17)	1,510,384	1	1,120,056	1
Total current assets	34,477,533	16	31,333,434	15
NONCURRENT ASSETS				
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 31)	727	-	5,617	-
Financial assets carried at cost - noncurrent (Notes 10 and 31)	371,367	-	371,367	-
Investments accounted for by the equity method (Notes 4 and 13)	11,075,172	5	9,828,118	5
Property, plant and equipment (Notes 4, 5, 14 and 33)	131,178,428	60	139,946,013	66
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	649,614	-	473,064	-
Deferred tax assets (Notes 4, 5 and 27)	8,055,966	4	8,641,671	4
Other noncurrent assets (Notes 17, 29, 31, 33 and 34)	30,049,215	14	18,410,242	9
Total noncurrent assets	183,427,937	84	179,723,540	85
TOTAL	$ 217,905,470	100	$ 211,056,974	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 18)	$ 4,160,000	2	$ -	-
Short-term bills payable (Note 18)	1,998,138	1	-	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	-	-	2,799	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 9 and 31)	2,460,000	1	22,853	-
Notes and accounts payable (Note 31)	120,773	-	678,649	-
Notes and accounts payable - related parties (Notes 31 and 32)	1,441,966	1	1,309,054	1
Other payables (Notes 21 and 26)	9,608,518	4	13,047,948	6
Current tax liabilities (Notes 4 and 27)	-	-	39,111	-
Deferred revenue - current (Notes 4, 5 and 22)	10,487,504	5	8,437,388	4
Bonds payable - current portion (Notes 4, 19, 25, 31 and 32)	9,025,000	4	4,780,000	2
Loans and debts - current portion (Notes 18, 31 and 33)	13,858,278	6	25,001,950	12
Capital lease obligations - current portion (Notes 4, 20, 31 and 33)	2,727,933	1	4,368,184	2
Other current liabilities (Notes 26 and 31)	3,191,736	2	2,252,321	1
Total current liabilities	59,079,846	27	59,940,257	28
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 31)	5,150	-	2,026	-
Bonds payable - noncurrent (Notes 4, 19, 25, 31 and 32)	18,323,836	8	27,808,023	13
Loans and debts - noncurrent (Notes 18, 31 and 33)	69,517,097	32	49,676,138	24
Provisions - noncurrent (Notes 4, 5 and 23)	3,416,601	2	2,591,678	1
Deferred tax liabilities (Notes 4 and 27)	239,590	-	460,134	-
Capital lease obligations - noncurrent (Notes 4, 20, 31 and 33)	6,945,200	3	8,449,000	4
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,805,315	1	1,909,749	1
Accrued pension costs (Notes 4, 5 and 24)	8,670,569	4	8,879,355	4
Other noncurrent liabilities (Note 26)	1,232,131	1	534,150	1
Total noncurrent liabilities	110,155,489	51	100,310,253	48
Total liabilities	169,235,335	78	160,250,510	76
EQUITY (Notes 19 and 25)				
Capital stock	52,491,666	24	52,000,000	25
Capital surplus	1,992,415	1	1,924,015	1
Accumulated deficit				
Legal reserve	-	-	321,891	-
Special reserve	-	-	3,926,293	2
Accumulated deficit	(3,864,876)	(2)	(7,409,299)	(4)
Total accumulated deficit	(3,864,876)	(2)	(3,161,115)	(2)
Other equity	(1,905,698)	(1)	86,936	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	48,670,135	22	50,806,464	24
TOTAL	$ 217,905,470	100	$ 211,056,974	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2014		2013	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 4, 26 and 32)	$ 139,726,168	100	$ 131,752,677	100
COSTS (Notes 4, 9, 12, 24, 26 and 32)	128,808,748	92	123,444,875	94
GROSS PROFIT	10,917,420	8	8,307,802	6
OPERATING EXPENSES (Notes 4, 24 and 26)	9,046,866	7	8,591,584	6
OPERATING PROFIT (LOSS)	1,870,554	1	(283,782)	-
NONOPERATING LOSS				
Other income (Notes 4, 15 and 26)	918,621	1	1,343,415	1
Other gains and losses (Notes 9 and 26)	(1,713,999)	(1)	(1,650,404)	(1)
Finance cost (Notes 9, 26 and 32)	(1,965,294)	(2)	(2,047,047)	(2)
Share of the profit of associates and joint ventures (Note 13)	937,446	1	1,693,481	1
Total nonoperating loss	(1,823,226)	(1)	(660,555)	(1)
PRETAX PROFIT (LOSS)	47,328	-	(944,337)	(1)
INCOME TAX BENEFIT (Notes 4, 5 and 27)	798,560	1	329,709	-
NET LOSS	(751,232)	(1)	(1,274,046)	(1)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange differences on translating foreign operations (Notes 4 and 25)	109,512	-	67,654	-
Unrealized gain on available-for-sale financial assets (Notes 4 and 25)	16,523	-	9,701	-
Cash flow hedges (Notes 4 and 25)	(2,537,523)	(2)	96,500	-
Share of other comprehensive loss of associates and joint ventures (Notes 4 and 25)	(24,571)	-	(6,154)	-
Actuarial gain (loss) on defined benefit plans (Notes 4 and 24)	99,277	-	(41,911)	-
Income tax relating to components of other comprehensive income (Note 27)	391,619	1	(23,673)	-
Other comprehensive income (loss) for the year, net of income tax	(1,945,163)	(1)	102,117	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (2,696,395)	(2)	$ (1,171,929)	(1)

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2014		2013	
	Amount	**%**	**Amount**	**%**
LOSS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic and diluted	$ (0.14)		$ (0.25)	

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

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity				
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total Equity
BALANCE AT JANUARY 1, 2013	$ 52,000,000	$ 1,405,394	$ 316,010	$ 3,873,369	$ (6,031,067)	$ (60,381)	$ (16,666)	$ 16,485	$ (43,372)	$ 51,459,772
Appropriation of 2012 the earnings										
Legal reserve	-	-	5,881	-	(5,881)	-	-	-	-	-
Special reserve	-	-	-	52,924	(52,924)	-	-	-	-	-
Other changes in capital surplus										
Issue of convertible bonds arising on equity component	-	518,621	-	-	-	-	-	-	-	518,621
Net loss for the year ended December 31, 2013	-	-	-	-	(1,274,046)	-	-	-	-	(1,274,046)
Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax	-	-	-	-	(45,381)	62,224	5,180	80,094	-	102,117
Total comprehensive loss for the year ended December 31, 2013	-	-	-	-	(1,319,427)	62,224	5,180	80,094	-	(1,171,929)
BALANCE AT DECEMBER 31, 2013	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
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
Net loss for the year ended December 31, 2014	-	-	-	-	(751,232)	-	-	-	-	(751,232)
Other comprehensive loss for the year ended December 31, 2014, net of income tax	-	-	-	-	47,471	98,009	15,501	(2,106,144)	-	(1,945,163)
Total comprehensive loss for the year ended December 31, 2014	-	-	-	-	(703,761)	98,009	15,501	(2,106,144)	-	(2,696,395)
BALANCE AT DECEMBER 31, 2014	$ 52,491,666	$ 1,992,415	$ -	$ -	$ (3,864,876)	$ 99,852	$ 4,015	$ (2,009,565)	$ (43,372)	$ 48,670,135

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Pretax profit (loss)	$ 47,328	$ (944,337)
Adjustments to reconcile pretax profit (loss) to net cash generated from operating activities:		
Debt expenses	30,000	-
Depreciation expenses	16,588,695	16,485,432
Amortization expenses	47,013	43,077
Net gain on fair value change of financial assets and liabilities held for trading	(77,668)	(130,884)
Interest income	(353,002)	(275,404)
Dividend income	(24,847)	(65,403)
Share of profit of associates and joint ventures	(937,446)	(1,693,481)
Loss on disposal of investments accounted for by the equity method	30	-
Gain on disposal of property, plant and equipment	(52,277)	(3,725)
Loss on inventories and property, plant and equipment	519,566	318,081
Gain on disposal of available-for-sales financial assets	(4,007)	-
Net loss on foreign currency exchange	396,270	194,074
Finance costs	1,965,294	2,047,047
Recognition of provisions	1,217,163	882,876
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Amortization of deferred credits	(2,862)	(48,986)
Reversal of impairment on investment properties	-	(579,015)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	51,311	1,364,044
Increase in notes and accounts receivable	(1,458,009)	(269,793)
Increase in accounts receivable - related parties	(40,654)	(71,160)
Increase in other receivables	(54,773)	(104,075)
Increase in inventories	(410,481)	(10,898)
(Increase) decrease in other current assets	(395,654)	135,381
(Decrease) increase in notes and accounts payable	(521,369)	272,633
Increase in accounts payable - related parties	132,912	123,711
Increase (decrease) in other payables	(1,954,792)	2,932,982
Increase in deferred revenue	1,993,718	541,786
Decrease in provisions	(392,240)	(116,580)
(Decrease) increase in other current liabilities	(73,057)	188,648
Decrease in accrued pension liabilities	(109,509)	(131,277)
Cash generated from operations	16,112,141	21,070,242
Interest received	362,969	259,686
Dividend received	636,545	640,066
Interest paid	(2,007,095)	(1,900,216)
Income tax paid	(77,267)	(33,977)
Net cash generated from operating activities	15,027,293	20,035,801

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of available-for-sale financial assets	$ 92,969	$ -
Payments for property, plant and equipment	(7,882,013)	(4,999,109)
Acquisition of investments accounted for by the equity method	(1,600,000)	(14,535)
Proceeds of the disposal of property, plant and equipment	75,665	30,306
Increase in refundable deposits	(312,254)	(103,945)
Decrease in refundable deposits	318,803	364,516
Increase in prepayments for equipment	(12,191,393)	(7,327,815)
Increase in computer software cost	(216,948)	(107,919)
Decrease in restricted assets	232,457	77,732
Proceeds of share redemption of subsidiaries	763,606	-
Net cash used in investing activities	(20,719,108)	(12,080,769)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) short-term loans	4,160,000	(1,600,000)
Increase in short-term bills payable	1,998,138	-
Issuance of bonds payable	-	16,900,000
Repayments of bonds payable	(4,780,000)	(6,130,000)
Proceeds of long-term debts	38,950,000	14,520,000
Repayments of long-term debts and capital lease obligations	(33,904,669)	(25,826,529)
Proceeds of guarantee deposits received	101,888	149,584
Refund of guarantee deposits received	(102,502)	(169,075)
Net cash generated from (used in) financing activities	6,422,855	(2,156,020)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	126,631	160,441
NET INCREASE IN CASH AND CASH EQUIVALENTS	857,671	5,959,453
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	14,970,817	9,011,364
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 15,828,488	$ 14,970,817

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

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

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, 2014 and 2013, CADF and NDF held 45.5% and 45.9% of the Company's shares, respectively. The employee number on December 31, 2014 and 2013 are 11,319 and 11,141, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 27, 2015.

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

a. 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 not yet effective

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

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	July 1, 2010

(Continued)

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

(Concluded)

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

Except for the following, the future initial application of the above 2013 version of IFRSs is not expected to have any material impact on the Company'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 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::

	Carrying Amount	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount**
Impact on assets, liabilities and equity			
January 1, 2014			
Investments accounted for using the equity method	$ 9,828,118	$ (8,444)	$ 9,819,674
Total effect on assets	$ 9,828,118	$ (8,444)	$ 9,819,674
Retained earnings	$ (3,161,115)	$ (8,444)	$ (3,169,559)
Total effect on equity	$ (3,161,115)	$ (8,444)	$ (3,169,559)
December 31, 2014			
Investment accounted for using equity method	$ 11,075,172	$ (5,860)	$ 11,069,312
Total effect on assets	$ 11,075,172	$ (5,860)	$ 11,069,312

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Retained earnings	$ (3,864,876)	$ (5,860)	$ (3,870,736)
Total effect on equity	$ (3,864,876)	$ (5,860)	$ (3,870,736)
Impact on total comprehensive income for the year ended December 31, 2014			
Operating cost	$ 128,808,748	$ 246	$ 128,808,994
Operating expense	9,046,866	117	9,046,983
Share of the loss of associates and joint ventures	(937,446)	(2,460)	(939,906)
Income tax expense	798,560	(62)	798,498
Total increase amount on net profit for the year		$ (2,159)	
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plan	99,277	363	99,640
Share of the other comprehensive loss of associates and joint ventures accounted by equity method	(24,571)	(124)	(24,695)
Income tax relating to items that will not be reclassified	391,619	(62)	391,557
Total after tax increase amount on total comprehensive income for the year		$ 177	

(Concluded)

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

The New IFRSs Not Included in the 2013 IFRSs Version	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 4)
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”	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016

(Continued)

The New IFRSs Not Included in the 2013 IFRSs Version	Effective Date Announced by IASB (Note 1)
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
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: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.

Note 4: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal; 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 Company'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 Company 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.

As of the date the accompanying financial statements were authorized for issue, the Company was continuing to assess the possible impact that the application of other standards and except for IAS 19 interpretations will have on the Company's financial position and operating result, and will disclose the possible impact when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, or other regulations.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its financial statements, the Company used the equity method to account for its investment in subsidiaries, associates and jointly controlled entities. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and related equity items, as appropriate, in the parent company only financial statements.

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.

Foreign Currencies

In preparing the financial statements of the Company entity, 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.

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 financial statements, the assets and liabilities of the Company'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.

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, 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.

Investments Accounted for by the Equity Method

Investments in subsidiaries, associates and jointly controlled entities are accounted for by the equity method

a. Investment in subsidiaries

   Subsidiaries (including special purpose entities) are the entities controlled by the Company.

   Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

   Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

   When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and sidestream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

b. Investment in associates and jointly controlled entities

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of associates and jointly controlled entities are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and jointly controlled entity. The Company also recognizes the changes in the Company's share of equity of associates and jointly controlled entity attributable to the Company.

When the Company subscribes for additional new shares of the associate and jointly controlled entity at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and jointly controlled entity. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate and jointly controlled entity, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and jointly controlled entity 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 Company's share of losses of an associate and jointly controlled entity equals or exceeds its interest in that associate and jointly controlled entity 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 Company's net investment in the associate and jointly controlled entity, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and jointly controlled entity.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate and jointly controlled entity 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 Company'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.

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 forms part of 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 Company discontinues the use of the equity method from the date on which it ceases to have significant influence and joint control. 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 jointly controlled entity 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 jointly controlled entity. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Company transacts with its associate and jointly controlled entity, profits and losses resulting from the transactions with the associate are recognized in the Company' financial statements only to the extent of interests in the associate and the jointly controlled entity that are not related to the Company.

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 subsequent accumulated depreciation and subsequent 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.

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 Company 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 Company 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 Company 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 Company 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 31.

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 Company'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 Company 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 Company 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 Company's assets minus all liabilities. Equity instruments issued by the Company 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 Company 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 Company 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 Company 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 Company recognizes provisions when the Company 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 Company 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 Company 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 Company 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. Operating lease

   1) The Company 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 Company 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.

c. 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.

Retirement Benefit Costs

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method. All actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

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

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 Company’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 income statement.

   The Company’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 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 Company 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 Company 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 Company’s accounting policies, 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 Company 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 Company 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 Company 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 Company'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 Company on the basis of past experience and fleet operation performance in the industry.

Accrued Pension Costs

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 (22), 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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2014	2013
Cash on hand and revolving fund	$ 76,126	$ 125,312
Checking accounts and demand deposits	7,686,416	4,611,834
Cash equivalents		
Time deposits with original maturities less than three months	7,716,060	9,334,516
Repurchase agreements collateralized by bonds	349,886	899,155
	$ 15,828,488	$ 14,970,817

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

	December 31	
	2014	2013
Bank balance	0%-1.75%	0%-2%
Time deposits with original maturities less than three months	0.39%-4%	0.8%-6.5%
Repurchase agreements collateralized by bonds	0.59%-0.8%	0.58%-0.6%

As of December 31, 2014, time deposits of $507,357 thousand with original maturities of more than 3 months and market interest rates of 4% were classified as other current assets (Note 17).

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

	December 31	
	2014	2013
Financial assets held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ 46,812	$ 23,254
Financial liabilities held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ -	$ 2,799

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, 2014			
Buy	NTD/USD	2015.01.02-2015.06.16	NTD1,247,678/USD40,300
December 31, 2013			
Buy	NTD/USD	2014.01.03-2014.07.08	NTD2,085,799/USD70,500

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2014		2013	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Current				
Foreign marketable equity securities				
France Telecom	$ -	-	$ 72,440	-

Net gain on disposal of available-for-sale financial assets in 2014 is $4,007 thousand.

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2014	2013
Derivative financial assets under hedge accounting		
Interest rate swaps	$ 727	$ 5,617
Currency options	32,285	27,033
Fuel options	10,565	107,970
	$ 43,577	$ 140,620
Current	$ 42,850	$ 135,003
Noncurrent	727	5,617
	$ 43,577	$ 140,620
Derivative financial liabilities under hedge accounting		
Interest rate swaps	$ 5,150	$ 2,026
Currency options	3,028	1,255
Fuel swaps	2,456,972	21,598
	$ 2,465,150	$ 24,879

(Continued)

	December 31	
	2014	2013
Current	$ 2,460,000	$ 22,853
Noncurrent	5,150	2,026
	$ 2,465,150	$ 24,879

(Concluded)

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

a. Interest rate swaps

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

The outstanding interest rate swap contracts at the end of the reporting period were as follows:

Notional Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2014			
NTD4,500,000	2015.05.24-2017.06.22	0.9%-1.14%	TAIBOR rate
December 31, 2013			
NTD5,240,000	2014.08.24-2017.06.22	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 Company 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, 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
December 31, 2013			
Buy USD call option	JPY/USD	2014.01.10-2014.04.30	JPY2,440,000/USD24,000
Sell USD put option	JPY/USD	2014.01.10-2014.04.30	JPY2,340,450/USD24,000

c. Fuel swaps

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2014			
Buy fuel call option	USD	2015.3.31-2015.11.30	NTD10,565
Sell fuel put option	USD	2015.3.31-2015.11.30	NTD2,456,972
December 31, 2013			
Buy fuel call option	USD	2014.01.31-2014.11.30	NTD107,970
Sell fuel put option	USD	2014.01.31-2014.11.30	NTD21,598

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.

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

	For the Year Ended December 31	
	2014	2013
Decrease (increase) in operating cost	$ (418,329)	$ 136,089
Increase in finance cost	(7,428)	(9,954)
Other foreign exchange gain	28,333	93,206
	$ (397,424)	$ 219,341

10. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2014		2013	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Unlisted common stocks				
Abacus International Holdings Ltd.	$ 297,946	14	$ 297,946	14
Jardine Air Terminal Services	56,023	15	56,023	15
Chung Hwa Express Co.	11,000	11	11,000	11
Regal International Advertising	5,925	6	5,925	6
	370,894		370,894	
Unlisted preferred stocks				
Abacus International Holdings Ltd.	473	-	473	-
	$ 371,367		$ 371,367	
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 371,367		$ 371,367	

The unlisted common stock held by the Company, are measured at cost less impairment losses at reporting date. Because a reasonable estimate of the fair value range is significant and cannot be reasonably assessed various estimates of probability, the Company's management believes its fair value cannot be reliably measured.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2014	**2013**
Notes receivable	$ 290,535	$ 291,248
Accounts receivable		
Accounts receivable	8,664,953	7,118,748
Less: Allowance for impairment loss	(55,093)	(45,604)
	8,609,860	7,073,144
	$ 8,900,395	$ 7,364,392

The average credit period was 7 to 45 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.

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

	For the Year Ended December 31	
	2014	**2013**
Balance at January 1	$ 45,604	$ 52,034
Impairment loss of accounts receivable	30,000	-
Less: Amounts written off as uncollectible	(20,511)	(6,430)
Balance at December 31	$ 55,093	$ 45,604

12. INVENTORIES

	December 31	
	2014	**2013**
Aircraft spare parts	$ 6,393,427	$ 6,246,657
Items for in-flight sale	454,601	403,380
Work in process - maintenance services	248,348	27,044
	$ 7,096,376	$ 6,677,081

The cost of inventories recognized as operating costs due to write-downs of inventories was $159,682 thousand and $149,430 thousand in 2014 and 2013, respectively.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31	
	2014	2013
Investments in subsidiaries	$ 9,034,323	$ 7,909,086
Investments in associates	1,130,840	1,069,607
Investments in jointly controlled entities	910,009	849,425
	$ 11,075,172	$ 9,828,118

a. Investment in subsidiaries

	December 31	
	2014	2013
Unlisted companies		
Tigerair Taiwan Co., Ltd.	$ 1,440,708	$ -
Taiwan Air Cargo Terminal	1,316,457	1,355,357
Cal Park	1,496,712	1,479,619
Mandarin Airlines	1,278,362	1,102,073
Cal-Dynasty International	1,160,402	1,056,433
Taoyuan International Airport Services	665,127	604,510
Cal-Asia Investment	577,230	1,275,313
Abacus Distribution Systems (Taiwan)	435,744	420,209
Taiwan Airport Services	269,401	252,587
Cal Hotel	248,177	210,275
Hwa Hsia	81,261	78,810
Dynasty Holidays	25,527	30,986
Yestrip	31,826	36,353
Global Sky Express	7,325	6,471
Freighter Princess Ltd.	32	30
Freighter Prince Ltd.	32	30
Freighter Queen Ltd.	-	30
	$ 9,034,323	$ 7,909,086

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Company were as follows:

	December 31	
	2014	2013
Tigerair Taiwan Co., Ltd.	80%	-
Taiwan Air Cargo Terminal	54%	54%
Cal Park	100%	100%
Mandarin Airlines	94%	94%
Cal-Dynasty International	100%	100%
Taoyuan International Airport Services	49%	49%
Cal-Asia Investment	100%	100%
Abacus Distribution Systems (Taiwan)	94%	94%
Taiwan Airport Services	47%	47%

(Continued)

	December 31	
	2014	**2013**
Cal Hotel	100%	100%
Hwa Hsia	100%	100%
Dynasty Holidays	51%	51%
Yestrip	100%	100%
Global Sky Express	25%	25%
Freighter Princess Ltd.	100%	100%
Freighter Prince Ltd.	100%	100%
Freighter Queen Ltd.	-	100%

(Concluded)

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 subsidiaries, Freighter Princess Ltd., Freighter Prince Ltd. and Freighter Queen Ltd., were established in March 2001, September 2001 and January 2002, respectively, for leasing of the Company's aircraft. In its balance sheets, the Company recognized the fixed assets and liabilities related to the leased aircraft as a leasing transaction.

Freighter Queen Ltd. was liquidated on April 17, 2014.

In order to provide the customers with more diverse options, the board of directors has reached an agreement to established 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 started operating on September 26, 2014.

To meet the operation demand, CAL-Asia investment issued common stock for cash $14,535 thousand in January 2013. The Company acquired all the additional shares. Afterwards, the disposal proceeds of Yangtze River Express of $763,606 thousand was remitted back to the company as deducted capital by CAL-Asia Investment.

The investment in subsidiaries 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, 2014 and 2013 was based on the subsidiaries' financial statements audited by the auditors for the same years.

The share of profit or loss of subsidiaries recognized under equity method was as follows:

	2014	**2013**
The share of profit or loss	$ 486,564	$ 1,307,429

b. Investments in associates

	December 31	
	2014	2013
Unlisted companies		
China Aircraft Services	$ 450,111	$ 407,725
Kaohsiung Catering Services	232,105	225,221
Asian Compressor Technology Services	259,605	244,486
Science Park Logistics	189,019	192,175
	$ 1,130,840	$ 1,069,607

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Company were as follows:

	December 31	
	2014	2013
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	25%	25%
Science Park Logistics	28%	28%

The investments in associates 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, 2014 and 2013 was based on the associates' financial statements audited by the auditors for the same years.

The amounts of investment in associated include goodwill arising from the acquisition of associated in previous years in December 31, 2014 and 2013, the balance of goodwill were all $53,844 thousand. Shown below are the movements in 2014 and 2013 of goodwill.

	Goodwill	Transaction between Company and Subsidiary
December 31, 2014		
Balance, beginning of year	$ 53,844	$ 52,042
Reduction	-	(32,868)
Balance, end of year	$ 53,844	$ 19,174
December 31, 2013		
Balance, beginning of year	$ 53,844	$ 84,910
Reduction	-	(32,868)
Balance, end of year	$ 53,844	$ 52,042

The share of profit or loss of associates recognized under equity method were as follows:

	2014	2013
China Aircraft Services	$ 35,664	$ 28,183
Kaohsiung Catering Services	100,716	95,711
Asian Compressor Technology Services	49,086	47,306
Science Park Logistics	23,426	27,562
	$ 208,892	$ 198,762

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2014	2013
China Pacific Catering Services	$ 743,817	$ 685,797
China Pacific Laundry Services	166,192	163,628
	$ 910,009	$ 849,425

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

	December 31	
	2014	2013
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%

The Company signed 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 on the board have major motion veto, therefore the Company does not have its control power.

The summarized financial information on the Company's interests in the jointly controlled entities accounted for using the equity method is as follows:

	December 31	
	2014	2013
Current assets	$ 644,880	$ 594,412
Noncurrent assets	$ 678,995	$ 612,753
Current liabilities	$ 261,049	$ 216,257
Noncurrent liabilities	$ 152,817	$ 141,483

	For the Year Ended December 31	
	2014	2013
Income recognized in profit or loss	$ 1,334,715	$ 1,188,922
Expenses recognized in profit or loss	$ 1,092,725	$ 1,001,632
Other comprehensive income	$ 16,045	$ 4,714

The investments in jointly controlled entities 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, 2014 and 2013 was based on the jointly controlled entities' financial statements audited by the auditor for the same years.

14. PROPERTY, PLANT AND EQUIPMENT

	December 31 2014	December 31 2013
Cost		
Freehold land	$ 193,013	$ 210,350
Buildings	7,314,028	7,368,106
Flight equipment	230,661,285	222,507,866
Equipment under finance lease	33,379,391	38,078,519
Machinery equipment	4,173,873	4,104,144
Office equipment	680,573	668,892
Leasehold improvements	1,006,556	1,104,439
Construction in progress	68,870	3,834
	$ 277,477,589	$ 274,046,150
Accumulated depreciation		
Buildings	$ 3,289,776	$ 3,181,061
Flight equipment	121,708,296	108,498,875
Equipment under finance lease	16,542,230	17,767,630
Machinery equipment	3,289,402	3,211,113
Office equipment	516,328	476,155
Leasehold improvements	953,129	965,303
	$ 146,299,161	$ 134,100,137
Net value	$ 131,178,428	$ 139,946,013

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Lease	Others	Total
Cost						
Balance at January 1, 2013	$ 210,350	$ 7,286,415	$ 207,456,231	$ 51,327,865	$ 5,891,438	$ 272,172,299
Additions	-	45,281	3,970,726	771,874	211,228	4,999,109
Disposals	-	(10,833)	(2,279,769)	(759,288)	(133,012)	(3,182,902)
Reclassification	-	47,243	13,360,678	(13,261,932)	(88,345)	57,644
Balance at December 31, 2013	$ 210,350	$ 7,368,106	$ 222,507,866	$ 38,078,519	$ 5,881,309	$ 274,046,150
Accumulated depreciation and impairment						
Balance at January 1, 2013	$ -	$ (2,911,004)	$ (90,799,422)	$ (22,293,677)	$ (4,490,201)	$ (120,494,304)
Depreciation expense	-	(186,927)	(12,942,243)	(2,968,472)	(387,790)	(16,485,432)
Disposals	-	10,321	1,981,753	755,335	131,809	2,879,218
Reclassification	-	(93,451)	(6,738,963)	6,739,184	93,611	381
Balance at December 31, 2013	$ -	$ (3,181,061)	$ (108,498,875)	$ (17,767,630)	$ (4,652,571)	$ (134,100,137)

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Lease	Others	Total
Cost						
Balance at January 1, 2014	$ 210,350	$ 7,368,106	$ 222,507,866	$ 38,078,519	$ 5,881,309	$ 274,046,150
Additions	-	23,308	6,331,741	1,232,885	294,079	7,882,013
Disposals	(17,337)	(68)	(3,521,679)	(1,002,179)	(322,718)	(4,863,981)
Reclassification	-	(77,318)	5,343,357	(4,929,834)	77,202	413,407
Balance at December 31, 2014	$ 193,013	$ 7,314,028	$ 230,661,285	$ 33,379,391	$ 5,929,872	$ 277,477,589
Accumulated depreciation and impairment						
Balance at January 1, 2014	$ -	$ (3,181,061)	$ (108,498,875)	$ (17,767,630)	$ (4,652,571)	$ (134,100,137)
Depreciation expense	-	(186,370)	(13,614,141)	(2,431,002)	(357,182)	(16,588,695)
Disposals	-	67	2,989,664	1,000,201	322,282	4,312,214
Reclassification	-	77,588	(2,584,944)	2,656,201	(71,388)	77,457
Balance at December 31, 2014	$ -	$ (3,289,776)	$ (121,708,296)	$ (16,542,230)	$ (4,758,859)	$ (146,299,161)

(Concluded)

The above items of property, plant and equipment 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 and equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Flight equipment and equipment under finance lease	
Airframe	20-25 years
Aircraft cabin	7-13 years
Engine	12-20 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
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years

Refer to Note 33 for the carrying amounts of property, plant and equipment pledged by the Company.

15. INVESTMENT PROPERTIES

	December 31 2014	December 31 2013
Carrying amount		
Investment properties	$ 2,047,448	$ 2,047,448

The investment properties (land) held by the Company was located in Nankan, which was leased to others.

Using appraisal the land located in Nankan, Taoyuan. In 2010, the Company recognized the difference between the net fair value of $1,468,433 thousand and carrying value of $2,047,448 thousand, as impairment loss of $579,015 thousand. In September 2013, the Company acquired the two updated appraisal reports. Those reports indicated that the net fair value of the land was $2,316,300 thousand and $2,449,699 thousand, respectively. Both of them exceeded the original cost of $2,047,448 thousand, therefore the all impairment loss was reversed.

The fair value of the investment properties held by the Company were $2,316,300 thousand on December 31, 2014 and 2013, respectively.

The fair value valuation was performed by the independent qualified professional valuers.

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

	Cost	Accumulated Impairment	Net Value
Balance at January 1, 2013	$ 2,047,448	$ (579,015)	$ 1,468,433
Gain on reversal of impairment	-	579,015	579,015
Balance at December 31, 2013	$ 2,047,448	$ -	$ 2,047,448
Balance at January 1, 2014	$ 2,047,448	$ -	$ 2,047,448
Additions	-	-	-
Balance at December 31, 2014	$ 2,047,448	$ -	$ 2,047,448

16. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2013	$ 787,836	$ (379,614)	$ 408,222
Additions	107,919	-	107,919
Amortization expense	-	(43,077)	(43,077)
Balance at December 31, 2013	$ 895,755	$ (422,691)	$ 473,064
Balance at January 1, 2014	$ 895,755	$ (422,691)	$ 473,064
Additions	216,948	-	216,948
Amortization expense	-	(47,013)	(47,013)
Reclassification	6,615	-	6,615
Balance at December 31, 2014	$ 1,119,318	$ (469,704)	$ 649,614

The above items of other intangible assets were depreciated on a straight-line basis on 2-10 years.

17. OTHER ASSETS

	December 31	
	2014	2013
Current		
Temporary payments	$ 197,348	$ 281,673
Prepayments	608,980	462,141
Other financial assets	507,357	-
Others	196,699	376,242
	$ 1,510,384	$ 1,120,056
Noncurrent		
Prepayments for aircraft	$ 27,585,802	$ 15,397,766
Prepayments - long-term	1,388,920	1,767,537
Refundable deposits	780,731	743,250
Restricted assets	279,497	487,649
Other financial assets	14,265	14,040
	$ 30,049,215	$ 18,410,242

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 34.

18. BORROWINGS

a. Short-term loans

	December 31	
	2014	2013
Bank loans - unsecured	$ 4,160,000	$ -

The range of interest rate on bank loans was 1.18%-1.30% on December 31, 2014.

b. Short-term bills payable

	December 31	
	2014	2013
Commercial paper	$ 2,000,000	$ -
Less: Unamortized discount on bills payable	1,862	-
	$ 1,998,138	$ -
Annually discount rate	1.108%-1.238%	-

The short-term bills payable remained in the balance of December 31, 2014 will expire on various date starting from March 2015.

c. Long-term debts

	December 31	
	2014	2013
Unsecured bank loans	$ 30,025,000	$ 19,875,000
Secured bank loans	28,905,839	34,188,569
Commercial paper		
Proceeds from issue	24,505,000	20,655,000
Less: Unamortized discount	60,464	40,481
	83,375,375	74,678,088
Less: Current portion	13,858,278	25,001,950
	$ 69,517,097	$ 49,676,138

Secured bank loans were secured by buildings, machinery equipment and flight equipment, please refer to Note 33.

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

	Currency	
	New Taiwan Dollars	U.S. Dollars
Original currency		
December 31, 2014	$ 50,475,804	$ 267,179
December 31, 2013	41,844,455	410,562
Translated in New Taiwan dollars		
December 31, 2014	50,475,804	8,455,035
December 31, 2013	41,844,455	12,219,114
Interest rates		
December 31, 2014	1.288%-2.2074%	0.2326%-4.39%
December 31, 2013	1.283%-2.647%	0.2376%-4.79%
Periods		
December 31, 2014	2004/12/16-2020/2/26	2003/7/22-2017/9/21
December 31, 2013	2002/4/11-2020/2/26	2003/7/22-2017/9/21

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until November 2017, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.3895%-2.086 % in 2014 and 1.302%-2.121% in 2013.

19. BONDS PAYABLE

	December 31	
	2014	2013
Privately placed corporate bonds - first issue in 2009	$ -	$ 1,100,000
Privately placed corporate bonds - second issue in 2009	-	800,000
Secured corporate bonds - first issue in 2010	1,440,000	2,520,000
Secured corporate bonds - first issue in 2011	4,200,000	6,000,000
Unsecured corporate bonds - first issue in 2012	5,785,000	5,785,000
Unsecured corporate bond first-time issued in 2013	10,900,000	10,900,000
Convertible bonds - fifth issue	5,023,836	5,483,023
	27,348,836	32,588,023
Less: Current portion	9,025,000	4,780,000
	$ 18,323,836	$ 27,808,023

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Privately placed corporate bonds - first issue in 2009	2009.4.15-2014.4.15	Principal repayable semiannually and pay principal on due date	3.60
Privately placed corporate bonds - second issue in 2009	2009.6.15-2014.6.15	Repayable semi-annually and pay principal on due date	3.60
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	2013.1.17-109.1.17	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 indicator rate mentioned above is the 90 days' commercial paper rates in Taiwan's secondary market.

In January 2012, the Company made a first issue of 2012 private unsecured bonds with aggregate face value of $5,785,000 thousand. The investors included these affiliates: Taoyuan International Airport Services, Mandarin Airlines and Abacus Distribution Systems (Taiwan) held $440,000 thousand of its face value in aggregate and would write off in the consolidation financial report.

On December 26, 2013, the Company made the fifth issue of unsecured convertible bonds, and the issue conditions are as follows:

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

b. On 30 days before December 26, 2015 and December 26, 2016, the holders can require the Company to redeem their bonds at face value.

c. The Company may redeem the bonds piecemeal between January 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, the proportion of cash dividend per share in market price exceed 1.5%. As of December 31, 2014, there was no adjustment to the conversion price but face value of $601,800 thousand of corporate bond convert into 49,167 thousand of common stock.

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

20. CAPITAL LEASE OBLIGATIONS

	December 31	
	2014	2013
Minimum lease payments		
Not later than one year	$ 2,727,933	$ 4,368,184
Later than one year and not later than five years	6,945,200	7,853,000
Later than five years	-	596,000
Present value of minimum lease payments	$ 9,673,133	$ 12,817,184
Current	$ 2,727,933	$ 4,368,184
Noncurrent	6,945,200	8,449,000
	$ 9,673,133	$ 12,817,184
Interest rate	1.287%-1.667%	1.306%-2.244%

The Company leased aircraft and engines by sale-leaseback under finance leases. The lease terms are from June 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to aircraft and engines, and enjoyed the same substantive right prior to the transaction. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under sale-leaseback aircraft contract are not inclusive of interest expense.

21. OTHER PAYABLES

	December 31	
	2014	**2013**
Fuel cost	$ 3,529,688	$ 4,137,233
Ground service expense	1,021,534	860,276
Repair expense	836,870	468,454
Interest expense	347,145	376,335
Short-term employee benefits	857,268	1,241,130
Terminal surcharges	667,196	606,499
Commission expense	607,366	566,609
Others	1,741,451	4,791,412
	$ 9,608,518	$ 13,047,948

22. DEFERRED REVENUE

	December 31	
	2014	**2013**
Frequent flyer program	$ 2,501,231	$ 2,587,189
Advance ticket sales	9,791,588	7,759,948
	$ 12,292,819	$ 10,347,137
Current	$ 10,487,504	$ 8,437,388
Noncurrent	1,805,315	1,909,749
	$ 12,292,819	$ 10,347,137

23. PROVISIONS

	December 31	
	2014	**2013**
Operating lease - aircraft	$ 3,416,601	$ 2,591,678

The Company rented flight equipment under operating lease agreements. Under the contracts, when the Company returns aircraft to the lessor, the flight equipment have to be repaired on the basis of operating years and flight hours, flight cycle and the engine revolution times; for these contracts, the Company recognizes a provision after entering into the lease contracts or during the lease term.

	Aircraft Lease Contract
Balance at January 1, 2013	$ 1,825,382
Additional provisions recognized	882,876
Usage	(116,580)
Balance at December 31, 2013	$ 2,591,678
Balance at January 1, 2014	$ 2,591,678
Additional provisions recognized	1,217,163
Usage	(392,240)
Balance at December 31, 2014	$ 3,416,601

24. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company 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.

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 6%-7.5% 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.

The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Enforcement Rules of the Labor Pension Act, the return generated by employees' pension contribution should not be below the interest rate for a 2-year time deposit with local banks.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2014	2013
Discount rates	1.68%	1.92%
Expected return on plan assets	1.68%	1.92%
Expected rates of salary increase	1.50%	1.50%

The amount recognized as profit or loss related to defined benefit plans were as follows:

	For the Year Ended December 31	
	2014	2013
Current service cost	$ 342,520	$ 211,368
Interest cost	201,952	163,494
Expected return on plan assets	(40,802)	(33,061)
Past service cost	-	59,136
	$ 503,670	$ 400,937
An analysis by function		
Operating cost	$ 340,362	$ 292,966
Operating expense	163,308	107,971
	$ 503,670	$ 400,937

Actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2014 and 2013 was $99,277 thousand and $41,911 thousand, respectively. The cumulative amount of actuarial gains or losses recognized in other comprehensive income as of December 31, 2014 and 2013 was $389,931 thousand and $489,208 thousand, respectively.

The amounts included in the balance sheet on the Company's obligation on its defined benefit plans were as follows:

	December 31	
	2014	2013
Present value of funded defined benefit obligation	$ 10,523,038	$ 11,390,715
Fair value of plan assets	(1,852,469)	(2,511,360)
Deficit	$ 8,670,569	$ 8,879,355

Movements in the present value of the defined benefit obligations were as follows:

	For the Year Ended December 31	
	2014	2013
Defined benefit obligation at the beginning of the year	$ 11,390,715	$ 11,727,654
Current service cost	342,520	211,368
Interest cost	201,952	163,494
Actuarial (gains) and losses	(83,327)	41,942
Benefits paid	(1,328,822)	(753,743)
Defined benefit obligation at the end of the year	$ 10,523,038	$ 11,390,715

Movements in the fair value of the plan assets were as follows:

	For the Year Ended December 31	
	2014	2013
Fair value of plan assets at the beginning of the year	$ 2,511,360	$ 2,699,797
Expected return on plan assets	40,802	33,061
Actuarial gains/(losses)	15,950	31
Contributions from the employer	462,258	451,862
Benefits paid	(1,177,901)	(673,391)
Fair value of plan assets at the end of the year	$ 1,852,469	$ 2,511,360

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Bureau of Labor Funds, Ministry of Labor:

	December 31	
	2014	2013
Equity instruments	51.43%	38.25%
Debt instruments	26.21%	40.69%
Others	22.36%	21.06%
	100.00%	100.00%

The Company chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to IFRSs:

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	$ 10,523,038	$ 11,390,715	$ 11,727,654	$ 11,549,012
Fair value of plan assets	$ (1,852,469)	$ (2,511,360)	$ (2,699,797)	$ (2,710,959)
Deficit	$ 8,670,569	$ 8,879,355	$ 9,027,857	$ 8,838,053
Experience adjustments on plan liabilities	$ (305,877)	$ 467,674	$ 425,880	$ -
Experience adjustments on plan assets	$ (15,950)	$ (31)	$ 21,417	$ -

The Company expects to make a contribution of $460,500 thousand to the defined benefit plans during the annual period beginning after 2014.

25. EQUITY

a. Share capital

1) Common shares

	December 31	
	2014	2013
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	$ 52,491,666	$ 52,000,000

The Company issued the 5th domestic unsecured convertible bonds and equal to the amount of $601,800 thousand convertible bonds holders apply for conversion, and the capital shares exchanged more $49,167 thousand and entitled to change registration after issuing new shares.

b. Capital surplus

	December 31	
	2014	**2013**
Issue of stock in excess of par value and conversion premium	$ 1,511,953	$ 1,391,536
Employee stock options expired	11,747	11,747
Long-term investment	955	955
Gain on sale of treasury shares held by subsidiaries	1,156	1,156
Bonds payable equity component	466,604	518,621
	$ 1,992,415	$ 1,924,015

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

The capital surplus from long-term investments and employee stock options may not be used for any purpose.

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.

All earnings appropriations should be made and approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

Appropriation of earnings in 2012

The Company appropriated net income in 2012 on the basis of ROC GAAP. The bonus to employees was estimated on the basis of past experience. However, there were net losses in 2012; thus, no bonus to employees was estimated. Material differences between estimates and the amounts proposed by the Board of Directors in the following year are retroactively adjusted in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

Based on a directive issued by the Securities and Futures Bureau (SFB), an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized valuation gain or loss on financial instruments, cumulative translation adjustments against the unrealized gain of equity, and net loss not recognized as pension cost) should be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under the SFB's regulations, a special reserve is appropriated from the balance of the retained earnings at an amount equal to the carrying value of the treasury stock held by subsidiaries in excess of the market value on the balance sheet date. The special reserve may be reversed when the market value recovers.

The appropriation of the 2012 earnings was approved at the stockholders' meeting on June 25, 2013, as follows:

	Appropriation of Earnings
Legal reserve	$ 5,881
Special reserve	52,924
	$ 58,805

There was no other appropriation of the 2012 earnings after the recognition of the above legal reserve and special reserve.

Appropriation of earnings in 2013

The bonus to employees was estimated on the basis of past experience. However, there were net losses in 2013; thus, no bonus to employees was estimated. Under Rule No. 1010012865 issued by the FSC on April 6, 2012, on the first-time adoption of IFRSs, the Company should appropriate to a special reserve an amount that is the same as the sum of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the Company's use of exemptions under IFRS 1. However, if at the date of transition to IFRSs, the increase in retained earnings that resulted from all IFRSs adjustments is not sufficient for this appropriation, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve appropriated as above may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. At the date of transition to IFRSs, the Company had a decrease in retained earnings, so there was no appropriation of a special reserve.

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.

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, negative other retained earning of $45,381 thousand, the unappropriated deficits of $6,089,872 thousand, and reversed the special reserve of $3,926,293 thousand by Corporate charter the remaining amount of accumulated deficit 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.

On March 27, 2015 the board proposed to offset the accumulated deficit against paid-in capital of $1,511,953 thousand. No bonus to employees was a appropriated for 2014 because of a net loss in that year.

Information on bonus to employee is available on the Market Observation Post System website.

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. Other 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 at January 1, 2014	$ 1,843	$ (11,486)	$ 96,579	$ 86,936
Exchange differences arising on translating the foreign operations	109,512	-	-	109,512
Unrealized gain (loss) on available-for-sale financial assets	-	16,523	-	16,523
Cash flow hedge	-	-	(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 exchange difference of associates accounted for using the equity method	8,571	1,787	-	10,358
Income tax	(20,074)	(2,809)	431,379	408,496
Balance at December 31, 2014	$ 99,852	$ 4,015	$ (2,009,565)	$ (1,905,698)
Balance at January 1, 2013	$ (60,381)	$ (16,666)	$ 16,485	$ (60,562)
Exchange differences arising on translating the foreign operations	67,654	-	-	67,654
Unrealized gain (loss) on available-for-sale financial assets	-	9,701	-	9,701
Cash flow hedge	-	-	315,841	315,841
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(219,341)	(219,341)
Share of exchange difference of associates accounted for using the equity method	7,314	(2,873)	-	4,441
Income tax	(12,744)	(1,648)	(16,406)	(30,798)
Balance at December 31, 2013	$ 1,843	$ (11,486)	$ 96,579	$ 86,936

e. Treasury stock

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
For the 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
For the year ended December 31, 2013			
Company’s shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889

The Company’s shares held by its subsidiaries as the ended of the reporting periods were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2014			
Mandarin Airlines	2,075	$ 30,082	$ 30,082
Hwa Hsia	814	11,805	11,805
		$ 41,887	$ 41,887
December 31, 2013			
Mandarin Airlines	2,075	$ 22,717	$ 22,717
Hwa Hsia	814	8,915	8,915
		$ 31,632	$ 31,632

Above subsidiaries acquired the Company’s stock in previous years was based on 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 the right to subscribe for the Company’s new shares and the right to vote.

26. NET LOSS

a. Revenue

	For the Year Ended December 31	
	2014	2013
Passenger	$ 90,984,009	$ 87,573,928
Cargo	43,176,442	38,983,676
Others	5,565,717	5,195,073
	$ 139,726,168	$ 131,752,677

b. Other income

	For the Year Ended December 31	
	2014	2013
Interest income	$ 353,002	$ 275,404
Subsidy income	194,671	182,025
Dividend income	24,847	65,403
Others	346,101	820,583
	$ 918,621	$ 1,343,415

c. Other gains and losses

	For the Year Ended December 31	
	2014	2013
Gain on disposal property, plant and equipment	$ 52,277	$ 3,725
Net gain arising on financial assets classified as held for trading	77,668	130,884
Litigation settlement	(1,212,121)	(1,488,095)
Gain or loss on foreign exchange, net	(83,129)	82,971
Others	(548,694)	(379,889)
	$ (1,713,999)	$ (1,650,404)

The Company along with worldwide leading carriers was named as defendants in the civil class action by global airfreight 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. Finance costs

	For the Year Ended December 31	
	2014	2013
Interest on bonds payable	$ 548,687	$ 562,686
Interest on bank loans	1,247,095	1,289,608
Interest on obligations under finance leases	162,084	184,799
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss	7,428	9,954
	$ 1,965,294	$ 2,047,047

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2014	2013
Capitalized interest	$ 211,409	$ 160,749
Capitalization rate	1.77%-1.82%	1.85%-1.91%

e. Depreciation and amortization

	For the Year Ended December 31	
	2014	**2013**
Property, plant and equipment	$ 16,588,695	$ 16,485,432
Intangible assets	47,013	43,077
	$ 16,635,708	$ 16,528,509
An analysis of deprecation by function		
Operating costs	$ 16,249,887	$ 16,133,489
Operating expenses	338,808	351,943
	$ 16,588,695	$ 16,485,432
An analysis of amortization by function		
Operating expenses	$ 47,013	$ 43,077

f. Employee benefit expense

	For the Year Ended December 31	
	2014	**2013**
Post-employment benefits		
Defined contribution plans	$ 245,836	$ 241,955
Defined benefit plans	503,670	400,937
	$ 749,506	$ 642,892
Other employee benefits		
Salary expenses	$ 11,188,769	$ 11,309,878
Labor and health insurance	1,037,000	975,162
Personnel service expenses	1,888,383	1,794,616
	$ 14,114,152	$ 14,079,656
An analysis of employee benefit expense by function		
Operating costs		
Operating expenses	$ 11,837,468	$ 11,822,227
	3,026,190	2,900,321
	$ 14,863,658	$ 14,722,548

27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2014	2013
Current tax		
Current year	$ 50,615	$ 75,845
Prior year adjustment	(8,835)	372
Deferred tax		
Current year	756,780	253,492
Income tax expense recognized in profit or loss	$ 798,560	$ 329,709

A reconciliation of accounting profit and income tax expense (benefit) is as follows:

	For the Year Ended December 31	
	2014	2013
Profit (loss) before tax	$ 47,328	$ (944,337)
Income tax expense (benefit) calculated at the statutory rate (17%)	$ 8,046	$ (160,537)
Add (deduct) tax effects of:		
Nondeductible expenses in determining taxable income	18,603	8,389
Temporary differences	69,570	894,896
Tax-exempt income	(96,219)	(257,461)
Additional income tax under the Alternative Minimum Tax Act	-	41,720
Loss carryforwards - current used	-	(485,287)
Overseas income tax expense	50,615	34,124
Deferred tax		
Temporary differences	501,780	(438,580)
Investment tax credits - current	-	148,073
Unrecognized loss carryforwards and investment tax credits	255,000	544,000
Adjustments for prior years' tax	(8,835)	372
Income tax expense recognized in profit or loss	$ 798,560	$ 329,709

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2014	2013
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ (20,074)	$ (12,744)
Fair value changes of available-for-sale financial assets	(2,809)	(1,648)
Fair value changes of hedging instruments for cash flow hedges	431,379	(16,406)
Actuarial gain or loss on defined benefit plan	(16,877)	7,125
Total income tax recognized in other comprehensive income	$ 391,619	$ (23,673)

c. Deferred tax assets and liabilities

For the year ended December 31, 2014

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plan	$ 1,509,490	$ (17,275)	$ (16,877)	$ 1,475,338
Dynasty flyer program	448,617	(16,421)	-	432,196
Depreciation of significant	1,058,025	(1,058,025)	-	-
Maintenance reserve	440,585	140,237	-	580,822
Depreciation of major spare part depreciation	114,947	(114,947)	-	-
Allowance for reduction of inventory	327,711	(179,275)	-	148,436
Others	500,134	129,328	409,188	1,038,650
Loss carryforwards	4,242,162	138,362	-	4,380,524
	$ 8,641,671	$ (978,016)	$ 392,311	$ 8,055,966
Deferred tax liabilities				
Temporary differences				
Unrealized foreign exchange gain	$ 234,397	$ (156,272)	$ -	$ 78,125
Depreciation difference from fixed assets	127,862	(1,374)	-	126,488
Others	97,875	(63,590)	692	34,977
	$ 460,134	$ (221,236)	$ 692	$ 239,590

For the year ended December 31, 2013

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plan	$ 1,524,377	$ (22,012)	$ 7,125	$ 1,509,490
Finance lease assets	731,148	(731,148)	-	-
Dynasty flyer program	458,870	(10,253)	-	448,617
Depreciation of significant	342,642	715,383	-	1,058,025
Maintenance reserve	310,315	130,270	-	440,585
Depreciation of major spare part depreciation	200,860	(85,913)	-	114,947

(Continued)

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Ending Balance
Allowance for reduction of inventory	$ 280,983	$ 46,728	$ -	$ 327,711
Others	372,473	138,678	(11,017)	500,134
Loss carryforwards	5,272,752	(1,030,590)	-	4,242,162
Investment credits	148,073	(148,073)	-	-
	$ 9,642,493	$ (996,930)	$ (3,892)	$ 8,641,671
Deferred tax liabilities				
Temporary differences				
Finance leases assets	$ 790,369	$ (790,369)	$ -	$ -
Unrealized foreign exchange gain	237,048	(2,651)	-	234,397
Depreciation difference from fixed assets	144,529	(16,667)	-	127,862
Others	11,844	66,250	19,781	97,875
	$ 1,183,790	$ 743,437	$ 19,781	$ 460,134

(Concluded)

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	
	2014	2013
Loss carryforwards		
Expiry in 2019	$ 4,700,000	$ 3,200,000
Investment credits		
Automated equipment	$ 40,542	$ 65,233

d. Unused investment tax credits as of December 31, 2014 were as follows:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel training expenses and purchases of eligible equipment	$ 24,691	$ 24,691	2015

e. Unused tax loss carryforwards as of December 31, 2014 were as follows:

Expiry Year	Unused Amount
2018	$ 7,631,747
2019	19,338,075
2021	2,899,496
2022	598,471
	$ 30,467,789

f. Integrated income tax

	December 31	
	2014	2013
Imputation credit accounts	$ 385,425	$ 225,815

The Company had accumulated deficit as of December 31, 2014 and 2013; thus, there were no expected creditable tax ratios.

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

g. The income tax returns of the Company through 2012 have been examined by the tax authorities.

28. LOSS PER SHARE

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

	For the Year Ended December 31	
	2014	2013
Basic and diluted loss per share	$ (0.14)	$ (0.25)

The weighted average number of shares used to calculate loss per share was as follows:

Net Loss for the Year

	For the Year Ended December 31	
	2014	2013
Net loss used to calculate loss per share	$ (751,232)	$ (1,274,046)

Number of Shares (Share in Thousands)

	For the Year Ended December 31	
	2014	2013
The weighted average number of shares used to calculate loss per share	5,199,401	5,197,111

These bonuses were previously recorded as appropriations from earnings. If the Company decides to settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares, and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. This dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

29. OPERATING LEASE ARRANGEMENTS

The Company rented planes and hangars under various operating lease contracts expiring on various dates until November 2026. The Company 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 are fixed or 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, 2014, the Company has rented eleven A330-300 aircrafts, six B737-800 aircrafts and three 777-300 ER aircrafts under operating contracts; the lease terms range from 8 to 12 years, with an extension option.

As of December 31, 2014 and 2013, the refundable deposits paid by the Company under operating lease contracts were $544,694 thousand and $519,112 thousand, respectively. Part of the refundable deposits is secured by credit guarantees. The credit guarantees were $528,196 thousand and $102,381 thousand, respectively.

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

	December 31	
	2014	2013
Up to 1 year	$ 5,288,346	$ 2,973,463
Over 1 year to 5 years	20,303,770	10,718,096
Over 5 years	18,723,586	11,667,231
	$ 44,315,702	$ 25,358,790

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

	For the Year Ended December 31	
	2014	2013
Minimum lease payment	$ 4,019,389	$ 2,967,896

30. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company 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 Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Company 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.

31. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Fair value of financial instruments not carried 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			
	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 27,348,836	$ 28,381,058	$ 32,588,023	$ 33,210,597
Loans and debt	83,375,375	83,505,438	74,678,088	74,718,685

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. 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 0.436% in 2014 and 0.486% in 2013 prevailing in the market for long-term debts.

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, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 46,812	$ -	$ 46,812
Derivative financial assets for hedging	-	43,577	-	43,577
	$ -	$ 90,389	$ -	$ 90,389

(Continued)

	Level 1	Level 2	Level 3	Total
Derivative financial liabilities for hedging	$ -	$ 2,465,150	$ -	$ 2,465,150

(Concluded)

December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instrument	$ -	$ 23,254	$ -	$ 23,254
Available-for-sale financial assets	72,440	-	-	72,440
Derivative financial assets for hedging	-	140,620	-	140,620
	$ 72,440	$ 163,874	$ -	$ 236,314
Financial liabilities at FVTPL				
Derivative instrument	$ -	$ 2,799	$ -	$ 2,799
Derivative financial liabilities for hedging	-	24,879	-	24,879
	$ -	$ 27,678	$ -	$ 27,678

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

3) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

a) Fair values of financial assets at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging are based on their quoted prices in an active market. If quoted market prices are not available, fair values are estimated using valuation techniques. For those derivative financial assets for hedging and with no quoted prices, the fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments. The valuation techniques are applied to the derivative financial assets by financial institutions, which calculate fair values at the expiry date of each contract.

b) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Thus, no fair value is presented.

c) Fair values of bonds payable are based on their quoted market prices.

The total amount of fair value listed above is not equal to the total value of the Company because it is not necessary to disclose the fair value of semifinancial and nonfinancial instruments.

b. Categories of financial instruments

	December 31	
	2014	2013
Financial assets		
Financial assets at FVTPL	$ 46,812	$ 23,254
Available-for-sale financial assets (3)	371,367	443,807
Derivative financial assets for hedging	43,577	140,620
Loans and receivables (1)	27,358,789	24,542,746
	$ 27,820,545	$ 25,150,427
Financial liabilities		
Financial liabilities at FVTPL	$ -	$ 2,799
Derivative financial liabilities for hedging	2,465,150	24,879
Financial liabilities at amortized cost (2)	127,207,000	135,336,140
	$ 129,672,150	$ 135,363,818

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.

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.

3) Including the Financial assets measured at cost.

c. Financial risk management objectives and policies

The Company 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 Company 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 Company 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 Company has a risk committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging percentage. This committee informs the Company 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 Company is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Company entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

The Company 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 Company 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.

The Company's foreign assets and liabilities carrying value denominated in foreign currencies at the end of reporting periods were as follows:

	December 31	
	2014	**2013**
Assets		
USD	$ 192,053	$ 137,638
EUR	17,824	17,007
HKD	317,204	338,315
JPY	1,267,381	2,728,839
RMB	1,662,290	1,836,235
Liabilities		
USD	106,077	583,492
EUR	4,958	7,416
HKD	70,103	75,978
JPY	4,495,581	4,274,591
RMB	122,666	324,472

Sensitivity analysis

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

The following details the Company'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 2014 $123,024 thousand and increase in pre-tax profit in 2013 $91,377 thousand, respectively.

b) Interest rate risk

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

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company 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 Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2014	2013
Fair value interest rate risk	$ 33,174,970	$ 31,618,152
Cash flow interest rate risk	93,380,512	88,465,143

Sensitivity analysis

The sensitivity analyses below were determined based on the Company'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 increase 100 basis points higher and had all other variables been held constant, the Company's pretax profit for the year ended December 31, 2014 would have decreased by $645,000 thousand.

Had interest rates increased 100 basis point and had all other variables been held constant, the Company's pretax profit for the year ended December 31, 2013 would have decreased by $700,000 thousand.

c) Other price risk

The Company was exposed to fuel price risk on its purchase of aviation fuel. The Company 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			
	2014		2013	
	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%	$ 31,646	$ 316,498	$ 21,417	$ 91,940
Fuel price decrease 5%	(32,545)	(134,513)	(13,132)	(84,966)

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company'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 Company has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Company consider into the financial condition of the customers, the credit rating agency rating, the Company's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Company 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 high.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Company's finance department. The Company'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.

Endorsement Given by Parent on Behalf of Subsidiaries please refer to Note 32 (c).

3) Liquidity risk

The objective of the Company'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 Company has adequate financial flexibility.

Liquidity and interest risk rate tables

The following table shows the remaining contractual maturity analysis of the Company's financial liabilities with agreed-upon repayment periods, which were based on the date the Company 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 Company'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, 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	$ 525,733	$ 2,202,200	$ 1,602,933	$ 5,342,267	$ -
Floating interest rate liabilities	1.4627	3,292,800	10,116,038	27,428,713	41,318,518	83,333
Fixed interest rate liabilities	4.374	109,489	328,467	437,956	232,084	-
Derivative instruments	-	2,504	21,879	394	405	-
		$ 3,930,526	$ 12,668,584	$ 29,469,996	$ 46,893,274	$ 83,333

December 31, 2013

	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	1.4260	$ 823,934	$ 3,544,250	$ 2,379,000	$ 5,474,000	$ 596,000
Floating interest rate liabilities	1.4997	2,863,853	21,717,407	13,856,184	33,679,859	1,106,852
Fixed interest rate liabilities	4.3739	102,972	308,916	411,888	630,157	-
Derivative instruments	-	2,201	21,879	394	705	-
		$ 3,792,960	$ 25,592,452	$ 16,647,466	$ 39,784,421	$ 1,702,852

Loan commitments

	December 31	
	2014	2013
Disposal unsecured bank loan limit	$ 18,202,000	$ 17,354,000

32. RELATED-PARTY TRANSACTIONS

Details of transactions between the Company 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	
	2014	2013	2014	2013
Associates	$ 2,300,506	$ 2,313,453	$ 3,419,013	$ 3,001,332
Jointly controlled entities	$ 16,558	$ 13,877	$ 1,439,844	$ 1,278,542
Major stockholder	$ 28,605	$ 26,001	$ 60,913	$ 53,014

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

	December 31	
	2014	**2013**
Associates	$ 490,497	$ 447,148
Jointly controlled entities	1,749	594
Major stockholder	4,626	8,476
	$ 496,872	$ 456,218

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

	December 31	
	2014	**2013**
Associates	$ 1,071,774	$ 985,408
Jointly controlled entities	365,493	317,284
Major stockholder	4,699	6,362
	$ 1,441,966	$ 1,309,054

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

In December 2008, the Company rented out planes to Mandarin Airlines under an operating lease contract. The monthly rent received is based on flight hours. The rental rate was adjusted in August 2010. In 2014 and 2013, the rentals received amounted $1,399,962 thousand and $1,297,098 thousand, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement. The Company paid the rental by flight hours. The Company paid flight rentals of about $246,377 thousand in 2014 and $228,635 thousand in 2013, respectively.

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 based on usage hours. In 2014 and 2013, the Company had paid rentals of about $60,913 thousand and $53,014 thousand, respectively.

In March 2010, the Company signed with CAL Park a one-year renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport at a fixed rental of $17,752 thousand monthly. In 2014 and 2013, the Company paid rentals of $213,019 thousand each.

c. Endorsements and guarantees

	December 31			
	2014		2013	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
Cal Park	$ 3,400,000	$ 2,905,000	$ 3,400,000	$ 3,071,000
Taiwan Air Cargo Terminal	1,080,000	582,671	1,080,000	361,800
Freighter Prince Ltd.	279,497	279,497	285,564	285,564
Cal Hotel	180,000	12,686	180,000	19,029
Tigerair Taiwan	902,278	-	-	-
Cal Asia				
Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	-	16,229	15,323

d. Bonds payable - related parties

Related parties that invested in the first issue of private unsecured bonds in 2012 (Note 19) are summarized as follows:

	December 31, 2014	
Related Party	Units	Aggregate Par/Dollars
The first issue of private unsecured bonds in 2012		
Taoyuan International Airport Services	100	$ 100,000
Mandarin Airlines	280	280,000
Abacus Distribution Systems (Taiwan)	60	60,000

	December 31, 2013	
Related Party	Units	Aggregate Par/Dollars
The first issue of private unsecured bonds in 2012		
Taoyuan International Airport Services	100	$ 100,000
Mandarin Airlines	280	280,000
Abacus Distribution Systems (Taiwan)	60	60,000

In 2014 and 2013, interest expenses were both $8,776 thousand. As of December 31, 2014 and 2013 the interests payable were both $4,195 thousand.

China Pacific Catering Services purchased the first issue of private unsecured bonds in 2010 (refer to Note 19). All bonds were repayable in May 2013.

e. Compensation of key management personnel

	For the Year Ended December 31	
	2014	2013
Short-term employee benefits	$ 39,282	$ 35,415
Post-employment benefits	2,595	4,353
	$ 41,877	$ 39,768

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

33. PLEDGED ASSETS

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

	December 31	
	2014	2013
Property, plant and equipment	$ 102,792,761	$ 104,982,313
Restricted assets - noncurrent		
US treasury bills	279,497	487,649
	$ 103,072,258	$ 105,469,962

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

34. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2014, the Company had commitments and contingent liabilities, 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 aircrafts are from 2016 to 2018.

   Prepayments for aircraft purchases were as follows:

December 31	
2014	2013
US$ 449,216 thousand	US$ 315,859 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 company then lease back.

Prepayments for aircraft purchase were as follows:

	December 31	
	2014	2013
	US$ 418,325 thousand	US$ 163,786 thousand

c. To replace the old aircraft, the Company entered into the four 777-300ER aircrafts lease contract with 12 years term. The expected delivery slot would be from October 2014. As of December 31, 2014, the Company had received three aircrafts. The Company entered into three 737-800 aircrafts lease contract. The expected delivery slot will be September 2015.

d. To provide new generation aircrafts maintenance, develop market share in aircrafts maintenance and upgrade the Group's maintenance qualify, on August 12, 2014 the board resolved to invest a wholly owned new aircraft maintenance company. Total capital of this company will be $1.35 billion and this company is founded in January 2015.

e. The Company has been named as a defendant, together with other airline members in Association of Asia Pacific Airlines, in the civil class action by some passengers alleging the antitrust violation in US Northern District Court of California. The Company has properly joined the defendants' Joint Defense Group. The litigation is in the pretrial procedure, and none of any evidence supporting Plaintiffs' allegation has been raised so far.

35. 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: Table 3 (attached).

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 4 (attached).

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 5 (attached).

9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 6 (attached).

10) Derivative financial transactions: Notes 7 and 9.

b. Investment in Mainland China: Table 7 (attached).

36. SEGMENT INFORMATION

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the 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 financial statements, the Company's reportable segment comprises the flight and the non-flight business departments.

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	$ 9,734,027	$ 3,400,000	$ 3,400,000	$ 2,905,000	$ -	6.99	$ 24,335,068	Y	-	-
		Taiwan Air Cargo Terminal	54% subsidiary	9,734,027	1,080,000	1,080,000	582,671	-	2.22	24,335,068	Y	-	-
		Freighter Prince Ltd.	100% subsidiary	9,734,027	297,057	279,497	279,497	279,497	0.57	24,335,068	Y	-	-
		Cal Hotel	100% subsidiary	9,734,027	180,000	180,000	12,686	-	0.37	24,335,068	Y	-	-
		Tigerair Taiwan Ltd.	80% subsidiary	9,734,027	902,278	902,278	-	-	1.85	24,335,068	Y	-	-
1	Cal-Asia Investment	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	115,446	16,524	-	-	-	-	288,615	-	-	Y

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.

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2014
(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, 2014				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines (the "Company")	Stock							
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets carried at cost - noncurrent	1,359,368	$ 297,946	13.59	$ 263,526	Note 1
	Abacus International Holdings Ltd. - unlisted 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	19,669	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	67,311	Note 3
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	559,584	5,925	6.22	679	-
Mandarin Airlines	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	30,082	-	30,082	-
	Bond							
	First Issue of Private Unsecured Bonds in 2012, China Airlines	Parent company	Bond investments with no active market - current	280	280,000		280,000	-
Taoyuan International Airport Services	Bond							
	First Issue of Private Unsecured Bonds in 2012 - China Airlines	Parent company	Bond investments with no active market - current	100	100,000	-	100,000	-
Cal-Asia Investment	Stock							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	75,919	5.83	18,692	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	22,031	5.45	7,240	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	3,294	-	3,294	-
	Eastspring Inv Well Pool Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,375,063	45,102	-	45,102	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,221,232	56,081	-	56,081	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,142,809	63,289	-	63,289	-
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	974,293	14,506	-	14,506	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2014				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Bond							
	First Issue of Private Unsecured Bonds in 2012 - China Airlines	Parent company	Bond investments with no active market - current	60	$ 60,000	-	$ 60,000	-
Taiwan Airport Services	Stock							
	TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,265,182	28,881	0.40	28,881	-
Hwa Hsia	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	814,152	11,805	-	11,805	-
	Beneficial certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	506,592	6,730	-	6,730	-

Note 1: The subsidiary’s net asset value was $263,526 thousand, which included common stock and preferred stock as of and for the year ended December 31, 2014.

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

Note 3: The net asset value was calculated using the investee's unaudited financial statements as of September 30, 2014 because the audited financial statements were not prepared on time.

(Concluded)

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Issuer of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
China Airlines (the "Company")	Stock Tigerair Taiwan Ltd.	Investments accounted for using equity method	-	Subsidiaries	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -

TABLE 4

CHINA AIRLINES, LTD. AND INVESTEES

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, 2014
(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.	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 336,731	0.26	30 days	$ -	-	$ (47,918)	5.64	-
(“China Airlines”)	Hua Hsia	Subsidiary	Purchase	312,259	0.24	2 months	-	-	(33,067)	3.89	-
	Mandarin Airlines	Subsidiary	Sale	(2,038,646)	1.46	2 months	-	-	446,339	4.44	-
			Purchase	313,983	0.24	2 months	-	-	(310,573)	36.58	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,341,017	1.04	60 days	-	-	(349,135)	41.12	-
	Cal Park	Subsidiary	Purchase	217,210	0.17	2 months	-	-	(217,210)	25.58	-
	Taiwan Airport Services	Subsidiary	Purchase	526,599	0.41	40 days	-	-	(77,021)	9.07	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,084,643	0.84	40 days	-	-	(229,731)	35.30	-
	Global Sky Express	Subsidiary	Sale	(146,658)	0.10	15 days	-	-	9,148	0.09	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	174,607	0.14	60 days	-	-	(29,275)	3.45	-
	China Aircraft Services	Equity-method investee	Purchase	235,661	0.18	30 days	-	-	(20,770)	2.45	-
	Eastern United International Logistics	Equity-method investee	Purchase	108,070	0.08	2 months	-	-	(10,307)	1.21	-

CHINA AIRLINES, LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2014
(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	$ 446,339	4.69	$ -	-	$ 260,768	$ -
Cal Park	China Airlines	Parent company	217,210	1.15	-	-	114,035	-
Mandarin Airlines	China Airlines	Parent company	310,573	1.05	-	-	310,573	-
China Pacific Catering Services	China Airlines	Parent company	349,135	4.11	-	-	115,409	-
Taoyuan International Airport Service	China Airlines	Parent company	299,731	3.57	-	-	298,854	-

TABLE 6

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2014			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2014	December 31, 2013	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	$ 1,496,712	$ 17,093	$ 17,093	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,278,362	155,584	179,102	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,316,457	(67,224)	(36,301)	-
	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	1,160,402	36,865	36,865	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	743,817	416,807	212,571	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	665,127	213,597	104,662	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 47,016	US$ 47,016	47,016,200	100.00	577,230	44,044	44,044	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	435,744	177,339	166,574	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	450,111	178,322	35,664	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	259,605	411,087	100,716	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	269,401	118,206	55,971	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	232,105	137,187	49,086	-
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	248,177	37,903	37,903	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	150,654	150,654	13,293,000	28.48	189,019	82,253	23,426	-
	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	166,192	53,488	29,419	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000	50,000	50,000	100.00	81,261	32,765	32,765	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	31,826	7,696	7,696	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	25,527	(4,163)	(2,123)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,325	6,419	1,605	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	32	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	32	-	-	-
	Freighter Queen Ltd.	Cayman Islands	Aircraft lease	-	US$ 1	-	-	-	-	-	Note 5
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,600,000	-	160,000,000	80.00	1,440,708	(199,115)	(159,292)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	-	20,000,000	10.00	180,089	(199,115)	(19,911)	-
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	33,589	11,417	4,361	Note 4
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	396,039	27,225	27,225	Note 3
Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	Building security and maintenance services	10,000	10,000	1,000,000	100.00	20,015	5,989	5,989	-

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: The investment income (loss) was calculated using the investee’s unaudited financial statements, because the audited financial statement were not prepared on time.

Note 5: Freighter Queen Ltd. was put into liquidation this year.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars/Renminibi/U.S. Dollars, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2014	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2014	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2014	Accumulated Inward Remittance of Earnings as of December 31, 2014
					Outflow	Inflow						
Arport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,138,914 (RMB 224,480)	Indirect (Note 1)	$ 130,316 (US$ 4,118)	$ 2,152 (US$ 68)	$ -	$ 132,468 (US$ 4,186)	$ 122,703 (RMB 24,381)	14.00	$ 16,675 (RMB 3,413)	$ 255,397 (RMB 50,338)	$ 57,405 (US$ 1,814) (Note 4)
Arport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	71,030 (RMB 14,000)	Indirect (Note 1)	61,614 (US$ 1,947)	-	-	61,614 (US$ 1,947)	77,242 (RMB 15,348)	14.00	9,872 (RMB 2,149)	111,356 (RMB 21,948)	-
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,167,405 (US$ 36,890)	Indirect (Note 1)	68,070 (US$ 2,151)	-	-	68,070 (US$ 2,151)	-	5.83	-	75,907 (RMB 14,961)	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	369,082 (US$ 11,663)	Indirect (Note 1)	20,127 (US$ 636)	-	-	20,127 (US$ 636)	-	5.45	-	22,028 (RMB 4,342)	-
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,536,783 (RMB 500,000)	Indirect (Note 1)	1,227,722 (US$ 38,796)	-	797,437 (US$ 25,199)	-	-	-	-	-	-
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	98,101 (US$ 3,100)	Indirect (Note 2)	7,848 (US$ 248)	-	-	7,848 (US$ 248)	-	8.00	-	7,848 (US$ 248)	-
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	31,646 (US$ 1,000)	Indirect (Note 3)	5,443 (US$ 172)	-	-	5,443 (US$ 172)	-	17.15	-	5,427 (US$ 172)	-

Accumulated Investment in Mainland China as of December 31, 2014	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
$723,703 (US$22,869)	$744,403 (Note 5)	$30,598,265 (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, 2014	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2014	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2014	Accumulated Repatriation of Investment Income as of December 31, 2014
					Outward	Inward						
Arport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,138,914 (RMB 224,480)	Indirect (Note 7)	$ 125,000 (US$ 3,950)	$ 2,152 (US$ 68)	$ -	$ 127,152 (US$ 4,018)	$ 122,703 (RMB 24,381)	14.00	$ 17,690 (RMB 3,413)	$ 254,014 (RMB 50,058)	$ 79,304 (US$ 2,506)
Arport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	71,030 (RMB 14,000)	Indirect (Note 7)	60,981 (US$ 1,927)	-	-	60,981 (US$ 1,927)	77,242 (RMB 15,348)	14.00	9,872 (RMB 2,149)	111,618 (RMB 21,996)	13,449 (US$ 425)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2014	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$188,133 (US$5,945)	$188,133 (US$5,945)	$341,374 (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 2014 amounted to US$1,814,300.

Note 5: The amount comprised US$21,691,103, 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 (Samon), 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.

Note 9: Yangtze River Express had been disposed by Cal-Asia Investment and the Company had received the disposed amount.

Note 10: Xiamen International Air Cargo Terminal and Xiamen International Airport Air Cargo Storage renamed to Arport Air Cargo Terminal (Xiamen) Co., Ltd. and Arport Air Cargo Service (Xiamen) Co., Ltd., respectively.

(Concluded)