China Airlines, Ltd.

Financial Statements for the
Years Ended December 31, 2015 and 2014 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, 2015 and 2014 and the related statements of comprehensive income, changes in equity and cash flows for the years then 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 the Company as of December 31, 2015 and 2014 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.

As Note 3 described, the Company retrospectively applied the amendments to the Regulations Governing the Preparation of Financial Report by Securities issuers starting January 1, 2015. Therefore, all items affected by the amendments in prior financial statements were adjusted.

March 25, 2016

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, 2015 AND 2014
(In Thousands of New Taiwan Dollars)

	2015		2014 (Audited after Adjustment)	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 17 and 30)	$ 18,507,429	9	$ 15,828,488	7
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	163,847	-	46,812	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 30)	45,744	-	42,850	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 30)	7,207,984	4	8,900,395	4
Notes and accounts - related parties (Notes 30 and 31)	546,141	-	496,872	1
Other receivables	762,988	-	551,185	-
Current tax assets (Notes 4 and 27)	7,124	-	4,171	-
Inventories, net (Notes 4 and 11)	8,203,921	4	7,096,376	3
Noncurrent assets held for sale (Notes 4, 5 and 12)	670,455	-	-	-
Other current assets (Notes 6 and 17)	1,788,406	1	1,510,384	1
Total current assets	37,904,039	18	34,477,533	16
NONCURRENT ASSETS				
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 30)	1,710	-	-	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 30)	11,216	-	727	-
Financial assets carried at cost - noncurrent (Notes 9 and 30)	126,125	-	371,367	-
Investments accounted for by the equity method (Notes 4 and 13)	11,007,620	5	11,069,312	5
Property, plant and equipment (Notes 4, 5, 14 and 32)	118,446,472	57	131,178,428	60
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	990,307	1	649,614	-
Deferred tax assets (Notes 4, 5 and 27)	6,690,802	3	8,055,966	4
Other noncurrent assets (Notes 17, 20, 30, 32 and 33)	31,917,111	15	30,049,215	14
Total noncurrent assets	171,238,811	82	183,422,077	84
TOTAL	$ 209,142,850	100	$ 217,899,610	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
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 30)	301,912	-	2,460,000	1
Notes and accounts payable (Note 30)	1,000,050	-	120,773	-
Notes and accounts payable - related parties (Notes 30 and 31)	1,347,675	1	1,441,966	1
Other payables (Notes 21 and 26)	10,722,052	5	9,608,518	4
Current tax liabilities (Notes 4 and 27)	10,572	-	-	-
Deferred revenue - current (Notes 4, 5 and 22)	11,951,128	6	10,487,504	5
Bonds payable and put option of convertible bonds - current (Notes 4, 19, 25, 30 and 31)	4,944,106	2	9,025,000	4
Loans and debts - current (Notes 18, 30 and 32)	29,683,086	14	13,858,278	6
Capital lease obligations - current (Notes 4, 20, 30 and 32)	1,428,467	1	2,727,933	1
Other current liabilities (Notes 26 and 30)	3,336,477	2	3,191,736	2
Total current liabilities	64,725,525	31	59,079,846	27
NONCURRENT LIABILITIES				
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 30)	11,291	-	5,150	-
Bonds payable - noncurrent (Notes 4, 19, 25, 30 and 31)	10,900,000	5	18,323,836	8
Loans and debts - noncurrent (Notes 18, 30 and 32)	53,849,371	26	69,517,097	32
Provisions - noncurrent (Notes 4, 5 and 23)	5,033,257	2	3,416,601	2
Deferred tax liabilities (Notes 4 and 27)	172,451	-	239,590	-
Capital lease obligations - noncurrent (Notes 4, 20, 30 and 32)	5,079,133	3	6,945,200	3
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,863,929	1	1,805,315	1
Net defined benefit liabilities - noncurrent (Notes 4, 5 and 24)	8,965,529	4	8,670,569	4
Other noncurrent liabilities (Notes 26 and 30)	272,468	-	1,232,131	1
Total noncurrent liabilities	86,147,429	41	110,155,489	51
Total liabilities	150,872,954	72	169,235,335	78
EQUITY (Notes 19 and 25)				
Capital stock	54,708,901	26	52,491,666	24
Capital surplus	798,415	1	1,992,415	1
Retained earnings (accumulated deficit)				
Unappropriated retained earnings (accumulated deficit)	2,872,235	1	(3,870,736)	(2)
Other equity	(66,283)	-	(1,905,698)	(1)
Treasury shares	(43,372)	-	(43,372)	-
Total equity	58,269,896	28	48,664,275	22
TOTAL	$ 209,142,850	100	$ 217,899,610	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, 2015 AND 2014
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2015		2014 (Audited after Adjustment)	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 4, 26 and 31)	$ 133,441,725	100	$ 139,726,168	100
COSTS (Notes 4, 8, 11, 24, 26 and 31)	115,817,924	87	128,808,994	92
GROSS PROFIT	17,623,801	13	10,917,174	8
OPERATING EXPENSES (Notes 4, 24 and 26)	9,738,704	7	9,046,983	7
OPERATING PROFIT	7,885,097	6	1,870,191	1
NONOPERATING LOSS				
Other income (Notes 9 and 26)	2,949,765	2	918,621	1
Other losses (Notes 8, 12, 14 and 26)	(2,900,099)	(2)	(1,713,999)	(1)
Finance cost (Notes 8, 26 and 32)	(1,711,983)	(1)	(1,965,294)	(2)
Share of the profit of associates and joint ventures (Note 13)	615,042	-	939,906	1
Total nonoperating loss	(1,047,275)	(1)	(1,820,766)	(1)
PRETAX PROFIT	6,837,822	5	49,425	-
INCOME TAX EXPENSE (Notes 4, 5 and 27)	1,074,108	1	798,498	1
NET INCOME (LOSS)	5,763,714	4	(749,073)	(1)
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 24)	(541,691)	-	99,640	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(81,484)	-	(34,805)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	92,088	-	(16,939)	-

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CHINA AIRLINES, LTD.

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

	2015		2014 (Audited after Adjustment)	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	$ 67,886	-	$ 109,512	-
Unrealized gain on available-for-sale financial assets (Notes 4 and 25)	-	-	16,523	-
Cash flow hedges (Notes 4 and 25)	2,153,292	1	(2,537,523)	(2)
Share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(6,397)	-	10,358	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 27)	(375,366)	-	408,496	1
Other comprehensive income (loss) for the year, net of income tax	1,308,328	1	(1,944,738)	(1)
TOTAL COMPREHENSIVE GAIN (LOSS) FOR THE YEAR	$ 7,072,042	5	$ (2,693,811)	(2)
EARINGS (LOSS) PER SHARE (New Taiwan dollars; Note 28)				
Basic	$ 1.06		$ (0.14)	
Diluted	$ 1.00		$ (0.14)	

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, 2015 AND 2014
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity				
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total Equity
BALANCE AT JANUARY 1, 2014	$ 52,000,000	$ 1,924,015	$ 321,891	$ 3,926,293	$ (7,409,299)	$ 1,843	$ (11,486)	$ 96,579	$ (43,372)	$ 50,806,464
Effect of retrospective application and retrospective adjustment	-	-	-	-	(8,444)	-	-	-	-	(8,444)
BALANCE AT JANUARY 1, 2014 AS RESTATED	52,000,000	1,924,015	321,891	3,926,293	(7,417,743)	1,843	(11,486)	96,579	(43,372)	50,798,020
Compensation of 2013 the 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	-	-	-	-	(749,073)	-	-	-	-	(749,073)
Other comprehensive loss for the year ended December 31, 2014, net of income tax	-	-	-	-	47,896	98,009	15,501	(2,106,144)	-	(1,944,738)
Total comprehensive loss for the year ended December 31, 2014	-	-	-	-	(701,177)	98,009	15,501	(2,106,144)	-	(2,693,811)
BALANCE AT DECEMBER 31, 2014	52,491,666	1,992,415	-	-	(3,870,736)	99,852	4,015	(2,009,565)	(43,372)	48,664,275
Compensation of deficit - capital surplus	-	(1,511,953)	-	-	1,511,953	-	-	-	-	-
Change in capital surplus from investments in associates and joint ventures accounted for by using equity method	-	64	-	-	-	-	-	-	-	64
Convertible bonds converted to ordinary shares	2,217,235	317,889	-	-	-	-	-	-	-	2,535,124
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(1,609)	-	-	-	-	(1,609)
Net income for the year ended December 31, 2015	-	-	-	-	5,763,714	-	-	-	-	5,763,714
Other comprehensive income for the year ended December 31, 2015, net of income tax	-	-	-	-	(531,087)	58,107	(2,260)	1,783,568	-	1,308,328
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	5,232,627	58,107	(2,260)	1,783,568	-	7,072,042
BALANCE AT DECEMBER 31, 2015	$ 54,708,901	$ 798,415	$ -	$ -	$ 2,872,235	$ 157,959	$ 1,755	$ (225,997)	$ (43,372)	$ 58,269,896

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

CHINA AIRLINES, LTD.

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

	2015	2014 (Audited after Adjustment)
CASH FLOWS FROM OPERATING ACTIVITIES		
Pretax profit	$ 6,837,822	$ 49,425
Adjustments to reconcile pretax profit to net cash generated from operating activities:		
Debt expenses	46,500	30,000
Depreciation expenses	16,266,952	16,588,695
Amortization expenses	60,044	47,013
Net gain on fair value change of financial assets and liabilities held for trading	(150,714)	(77,668)
Interest income	(367,360)	(353,002)
Dividend income	(1,883,826)	(24,847)
Share of profit of associates and joint ventures	(615,042)	(939,906)
Loss on disposal of investments accounted for by the equity method	-	30
Gain on disposal of property, plant and equipment	(13,137)	(52,277)
Loss on inventories and property, plant and equipment	388,738	519,566
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	2,468,372	-
Gain on disposal of available-for-sales financial assets	-	(4,007)
Net loss on foreign currency exchange	427,715	396,270
Finance costs	1,711,983	1,965,294
Recognition of provisions	1,620,216	1,217,163
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Amortization of deferred credits	-	(2,862)
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	31,969	51,311
Decrease (increase) in notes and accounts receivable	1,619,067	(1,458,009)
Increase in accounts receivable - related parties	(49,269)	(40,654)
Increase in other receivables	(232,794)	(54,773)
Increase in inventories	(1,281,193)	(410,481)
Increase in other current assets	(319,672)	(395,654)
Increase (decrease) in notes and accounts payable	864,228	(521,369)
(Decrease) increase in accounts payable - related parties	(94,291)	132,912
Increase (decrease) in other payables	436,951	(1,954,792)
Increase in deferred revenue	1,522,238	1,993,718
Decrease in provisions	(3,560)	(392,240)
Increase (decrease) in other current liabilities	360,431	(73,057)
Decrease in accrued pension liabilities	(246,731)	(109,146)
Cash generated from operations	29,391,125	16,112,141
Interest received	388,351	362,969
Dividend received	2,663,110	636,545
Interest paid	(1,725,744)	(2,007,095)
Income tax paid	(51,742)	(77,267)
Net cash generated from operating activities	30,665,100	15,027,293

(Continued)

CHINA AIRLINES, LTD.

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

	2015	2014 (Audited after Adjustment)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of available-for-sale financial assets	$ -	$ 92,969
Proceeds of share redemption of financial assets measured at cost	245,242	-
Acquisition of derivative financial assets for hedging	(13,096)	-
Acquisition of investments accounted for by the equity method	(124,091)	(1,600,000)
Payments for property, plant and equipment	(6,175,287)	(7,882,013)
Proceeds of the disposal of property, plant and equipment	18,700	75,665
Increase in refundable deposits	(423,231)	(312,254)
Decrease in refundable deposits	644,532	318,803
Increase in prepayments for equipment	(13,382,155)	(12,191,393)
Refund in prepayment for aircraft	10,186,049	-
Increase in computer software costs	(400,737)	(216,948)
Decrease in restricted assets	53,543	232,457
Proceeds of share redemption of subsidiaries	-	763,606
Net cash used in investing activities	(9,370,531)	(20,719,108)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase short-term loans	(4,160,000)	4,160,000
(Decrease) increase in short-term bills payable	(1,998,138)	1,998,138
Repayments of bonds payable	(9,025,000)	(4,780,000)
Proceeds of long-term debts	16,020,000	38,950,000
Repayments of long-term debts and capital lease obligations	(19,181,883)	(33,904,669)
Proceeds of guarantee deposits received	71,540	101,888
Refund of guarantee deposits received	(68,653)	(102,502)
Net cash generated from (used in) financing activities	(18,342,134)	6,422,855
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(273,494)	126,631
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,678,941	857,671
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	15,828,488	14,970,817
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 18,507,429	$ 15,828,488

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

1. GENERAL INFORMATION

China Airlines, Ltd. (the "Company") was founded in 1959 and its stocks have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) sale of aircraft parts, equipment and entire aircraft; and (f) lease of aircraft.

The major stockholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2015 and 2014, CADF and NDF held 43.63% and 45.48% of the Company's shares, respectively. As of December 31, 2015 and 2014, the Company had 12,437 and 11,319 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

   Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014 stipulated that the 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.

   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.

   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 Companying 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 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 by 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)

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
December 31, 2014			
Investment accounted for by equity method	$ 11,075,172	$ (5,860)	$ 11,069,312
Total effect on assets	$ 11,075,172	$ (5,860)	$ 11,069,312
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 profit 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 income of associates and joint ventures accounted by equity method	(34,929)	124	(34,805)
Income tax relating to items that will not be reclassified	(16,877)	(62)	(16,939)
Total increase (after tax) amount of comprehensive income for the year		$ 425	

(Concluded)

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

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

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

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the 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 Company'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 Company 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 Company 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.

3) IFRS 16 "Leases"

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

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

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

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries, associates and joint ventures. 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 and time deposits, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Inventories

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

Noncurrent Assets Helds for Sale

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

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

Investments 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 side stream 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. Investments in associates and joint ventures

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 is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

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 ventures. The Company also recognizes the changes in the Company's share of equity of associates and jointly ventures attributable to the Company.

When the Company subscribes for additional new shares of the associate and joint ventures 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 joint ventures. 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 joint ventures 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 joint ventures equals or exceeds its interest in that associate and joint ventures 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 joint ventures 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 joint ventures.

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 joint ventures 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 joint ventures, 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 Company 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 30.

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.