China Airlines, Ltd.

Financial Statements for the
Years Ended December 31, 2013 and 2012 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. as of December 31, 2013, December 31, 2012 and January 1, 2012 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 Audit 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, 2013, December 31, 2012 and January 1, 2012 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.

The accompanying schedules of major accounting items of China Airlines, Ltd. as of and for the year ended December 31, 2013 are presented for the purpose of additional analysis. Such schedules have been subjected to the auditing procedures described in the second paragraph. In our opinion, such schedules are consistent, in all material respects, with the financial statements required to in the first paragraph.

March 27, 2014

<u>*Notice to Readers*</u>

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
(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013 Amount	%	December 31, 2012 Amount	%	January 1, 2012 Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 4 and 6)	$ 14,970,817	7	$ 9,011,364	4	$ 8,947,397	4
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	23,254	-	1,253,615	1	3,278,739	1
Available-for-sale financial assets - current (Notes 4, 5, 8 and 31)	72,440	-	62,738	-	96,131	-
Derivative financial assets for hedging - current (Notes 4, 5, 9 and 31)	135,003	-	52,767	-	108,667	-
Receivables:						
Notes and accounts, net (Notes 4, 5 and 11)	7,364,392	4	7,058,818	4	9,723,621	5
Notes and accounts - related parties (Note 32)	456,218	-	385,058	-	282,809	-
Other receivables	506,379	-	386,586	-	505,435	-
Current tax assets (Notes 4 and 27)	7,794	-	10,923	-	5,577	-
Inventories, net (Notes 4 and 12)	6,677,081	3	6,708,336	3	6,513,721	3
Other current assets (Note 17)	1,120,056	1	1,361,448	1	1,234,291	1
Total current assets	31,333,434	15	26,291,653	13	30,696,388	14
NONCURRENT ASSETS						
Financial assets at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 31)	-	-	-	-	374,085	-
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 9 and 31)	5,617	-	759	-	-	-
Financial assets carried at cost - noncurrent (Note 10)	371,367	-	371,367	-	371,367	-
Investments accounted for by the equity method (Notes 4 and 13)	9,828,118	5	8,633,263	4	8,576,000	4
Property, plant and equipment (Notes 4, 5, 14 and 33)	139,946,013	66	151,677,995	72	163,755,397	74
Investment properties (Notes 4 and 15)	2,047,448	1	1,468,433	1	1,468,433	1
Other intangible assets (Notes 4 and 16)	473,064	-	408,222	-	385,726	-
Deferred tax assets (Notes 4, 5 and 27)	8,641,671	4	9,642,493	5	8,420,472	4
Other noncurrent assets (Notes 17, 33 and 34)	18,410,242	9	11,324,489	5	7,801,910	3
Total noncurrent assets	179,723,540	85	183,527,021	87	191,153,390	86
TOTAL	$ 211,056,974	100	$ 209,818,674	100	$ 221,849,778	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 18)	$ -	-	$ 1,600,000	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)	22,853	-	23,702	-	47,076	-
Notes and accounts payable	678,649	-	337,538	-	536,480	-
Notes and accounts payable - related parties (Note 32)	1,309,054	1	1,185,343	-	965,595	-
Other payables (Notes 21 and 32)	13,047,948	6	9,706,332	5	12,294,967	6
Current tax liabilities (Notes 4 and 27)	39,111	-	-	-	-	-
Deferred revenue - current (Notes 4, 5 and 22)	8,437,388	4	7,837,700	4	9,242,298	4
Bonds payable - current portion (Notes 19, 31 and 32)	4,780,000	2	6,130,000	3	12,200,000	5
Loans and debts - current portion (Notes 18, 31 and 33)	25,001,950	12	16,671,452	8	18,047,762	8
Capital lease obligations - current portion (Note 4, 20, 31 and 33)	4,368,184	2	5,279,608	2	3,745,039	2
Other current liabilities	2,252,321	1	2,029,065	1	1,774,466	1
Total current liabilities	59,940,257	28	50,800,740	24	58,853,683	26
NONCURRENT LIABILITIES						
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 9 and 31)	2,026	-	11,430	-	25,325	-
Bonds payable - noncurrent (Notes 19, 31 and 32)	27,808,023	13	16,205,000	8	16,550,000	7
Loans and debts - noncurrent (Notes 18, 31 and 33)	49,676,138	24	63,749,392	30	69,385,610	31
Provisions - noncurrent (Notes 4, 5 and 23)	2,591,678	1	1,825,382	1	1,379,620	1
Deferred tax liabilities (Notes 4 and 27)	460,134	-	1,183,790	1	160,021	-
Capital lease obligations - noncurrent (Notes 4, 20, 31 and 33)	8,449,000	4	12,811,264	6	18,137,067	8
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,909,749	1	1,967,650	1	1,711,677	1
Accrued pension costs (Notes 4, 5 and 24)	8,879,355	4	8,968,721	4	8,719,782	4
Other noncurrent liabilities	534,150	1	835,533	-	1,161,972	1
Total noncurrent liabilities	100,310,253	48	107,558,162	51	117,231,074	53
Total liabilities	160,250,510	76	158,358,902	75	176,084,757	79
EQUITY (Note 25)						
Capital stock	52,000,000	25	52,000,000	25	46,316,224	21
Capital surplus	1,924,015	1	1,405,394	1	422,101	-
Retained earnings						
Legal reserve	321,891	-	316,010	-	799,630	1
Special reserve	3,926,293	2	3,873,369	2	5,162,071	2
Accumulated deficits	(7,409,299)	(4)	(6,031,067)	(3)	(6,941,643)	(3)
Total retained earnings	(3,161,115)	(2)	(1,841,688)	(1)	(979,942)	-
Other equity	86,936	-	(60,562)	-	50,010	-
Treasury shares	(43,372)	-	(43,372)	-	(43,372)	-
Total equity	50,806,464	24	51,459,772	25	45,765,021	21
TOTAL	$ 211,056,974	100	$ 209,818,674	100	$ 221,849,778	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
REVENUES (Notes 4 and 32)				
Passenger	$ 87,573,928	66	$ 86,167,009	65
Cargo	38,983,676	30	40,808,925	31
Others	5,195,073	4	5,159,534	4
Total revenues	131,752,677	100	132,135,468	100
COSTS (Notes 9, 12, 26, 32 and 34)				
Flight operations	88,182,486	67	85,691,995	65
Terminal and landing fees	19,207,426	15	19,328,660	15
Passenger services	8,499,498	6	8,227,064	6
Aircraft maintenance	6,264,507	5	7,951,890	6
Others	2,779,053	2	2,833,936	2
Total costs	124,932,970	95	124,033,545	94
GROSS PROFIT	6,819,707	5	8,101,923	6
OPERATING EXPENSES (Note 26)				
Marketing and selling	6,173,781	4	6,320,066	4
General and administrative	2,417,803	2	2,558,447	2
Total operating expenses	8,591,584	6	8,878,513	6
OPERATING LOSS	(1,771,877)	(1)	(776,590)	-
NONOPERATING INCOME				
Other income (Note 25)	1,343,415	1	990,564	1
Other gains and losses (Notes 9, 26 and 32)	(162,309)	-	1,095,584	1
Finance cost (Notes 9 and 26)	(2,047,047)	(2)	(2,446,604)	(2)
Share of the profit of associates and joint ventures (Note 13)	1,693,481	1	678,283	-
Total nonoperating income	827,540	-	317,827	-
PRETAX LOSS	(944,337)	(1)	(458,763)	-
INCOME TAX EXPENSE (BENEFIT) (Notes 4, 5 and 27)	329,709	-	(40,407)	-
NET LOSS	(1,274,046)	(1)	(418,356)	-

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	For the Years Ended December 31			
	2013		2012	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange differences on translating foreign operations (Notes 4 and 25)	$ 67,654	-	$ (70,014)	-
Unrealized gain (loss) on available-for-sale financial assets (Notes 4 and 25)	9,701	-	(33,393)	-
Cash flow hedges (Notes 4 and 25)	96,500	-	(22,133)	-
Share of other comprehensive loss of associates and joint ventures (Notes 4 and 25)	(6,154)	-	(78,973)	-
Actuarial loss on defined benefit plans (Note 24)	(41,911)	-	(447,297)	(1)
Income tax relating to components of other comprehensive income (Note 27)	(23,673)	-	97,848	-
Other comprehensive income (loss) for the year, net of income tax	102,117	-	(553,962)	(1)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (1,171,929)	(1)	$ (972,318)	(1)
LOSS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic and diluted	$(0.25)		$(0.08)	

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

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN EQUITY
(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 Hold by Subsidiaries	Total Equity
BALANCE AT JANUARY 1, 2012	$ 46,316,224	$ 422,101	$ 799,630	$ 5,162,071	$ (6,941,643)	$ -	$ 15,155	$ 34,855	$ (43,372)	$ 45,765,021
Compensation of 2011 deficit										
Legal reserve	-	-	(483,620)	-	483,620	-	-	-	-	-
Special reserve	-	-	-	(1,288,702)	1,288,702	-	-	-	-	-
Net loss for the year ended December 31, 2012	-	-	-	-	(418,356)	-	-	-	-	(418,356)
Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax	-	-	-	-	(443,390)	(60,381)	(31,821)	(18,370)	-	(553,962)
Total comprehensive income (loss) for the year ended December 31, 2012	-	-	-	-	(861,746)	(60,381)	(31,821)	(18,370)	-	(972,318)
Issue of common shares for cash	5,683,776	983,293	-	-	-	-	-	-	-	6,667,069
BALANCE AT DECEMBER 31, 2012	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
Compensation of 2012 deficit										
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 income (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

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (944,337)	$ (458,763)
Adjustments to reconcile net loss to net cash generated from (used in) operating activities:		
Depreciation expenses	16,485,432	16,169,497
Amortization expenses	43,077	38,818
Net gain on fair value change of financial assets held for trading	(133,683)	(472,167)
Net loss on fair value change of financial liabilities held for trading	2,799	-
Interest income	(275,404)	(180,921)
Dividend income	(65,403)	(186,901)
Share of profit of associates and joint ventures	(1,693,481)	(678,283)
Gain on disposal of property, plant and equipment	(3,725)	(52,864)
Loss on inventories and property, plant and equipment	318,081	294,188
Net loss (gain) on foreign currency exchange	194,074	(1,159,794)
Finance costs	2,047,047	2,446,604
Recognition of provisions	882,876	627,596
Amortization of unrealized gain on sale-leaseback	(14,512)	(14,512)
Amortization of deferred credits	(48,986)	(66,414)
Reversal of impairment on investment properties	(579,015)	-
Changes in operating assets and liabilities		
Decrease in financial assets held for trading	1,364,044	2,871,376
Decrease (increase) in notes and accounts receivable	(269,793)	2,617,777
Increase in accounts receivable - related parties	(71,160)	(102,249)
Decrease (increase) in other receivables	(104,075)	302,753
Increase in inventories	(10,898)	(154,042)
Decrease in other current assets	135,381	235,714
Increase in notes and accounts payable	272,633	198,428
Increase in accounts payable - related parties	123,711	219,748
Increase (decrease) in other payables	2,932,982	(2,737,961)
Increase (decrease) in deferred revenue	541,786	(1,148,626)
Decrease in provisions	(116,580)	(181,834)
Increase in other current liabilities	188,648	263,232
Decrease in accrued pension liabilities	(131,277)	(198,358)
Cash generated from operations	21,070,242	18,492,042
Interest received	259,686	183,917
Dividend received	640,066	502,442
Interest paid	(1,900,216)	(2,374,743)
Income tax paid	(33,977)	(65,343)
Net cash generated from operating activities	20,035,801	16,738,315

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	**2012**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	$ (4,999,109)	$ (4,402,833)
Acquisition of investments accounted for by the equity method	(14,535)	(30,409)
Proceeds of the disposal of property, plant and equipment	30,306	403,205
Increase in refundable deposits	(103,945)	(378,319)
Decrease in refundable deposits	364,516	649,660
Increase in prepayments for equipment	(7,327,815)	(4,813,742)
Increase in computer software cost	(107,919)	(61,314)
Decrease in restricted assets	77,732	90,535
Net cash used in investing activities	(12,080,769)	(8,543,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) short-term loans	(1,600,000)	1,600,000
Issue of bonds payable	16,900,000	5,785,000
Repayments of bonds payable	(6,130,000)	(12,200,000)
Proceeds of long-term debts	14,520,000	12,700,000
Repayments of long-term debts and capital lease obligations	(25,826,529)	(22,637,507)
Proceeds of guarantee deposits received	149,584	106,231
Refund of guarantee deposits received	(169,075)	(112,899)
Proceeds of the issue of the common shares	-	6,667,069
Net cash used in financing activities	(2,156,020)	(8,092,106)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	160,441	(39,025)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,959,453	63,967
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	9,011,364	8,947,397
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 14,970,817	$ 9,011,364

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, 2013 and 2012, CADF and NDF held 45.9% of the Company's shares in total.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 27, 2014.

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

a. New, amended and revised standards and interpretations (the "New IFRSs") in issue but not yet effective

   The Company has not applied the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) issued by the IASB. As of the date that the financial statements were authorized for issue, the Financial Supervisory Commission (the "FSC") has not announced the effective dates for the following new, amended and revised standards and interpretations (the "New IFRSs"). On January 28, 2014, the Financial Supervisory Commission (FSC) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the "New IFRSs") included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

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
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

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
IFRS 9 “Financial Instruments”	Note 3
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	Note 3
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
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: IASB tentatively decided that an entity should apply IFRS 9 for annual periods beginning on or after January 1, 2018.

b. Significant impending changes in accounting policy resulted from New IFRSs in issue but not yet effective

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

1) IFRS 9 "Financial Instruments"

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. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. 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.

As for financial liabilities, the main changes in the classification and measurement relate to the subsequent measurement of financial liabilities designated as at fair value through profit or loss. The amount of change in the fair value of such financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch in profit or loss, the Company presents all gains or losses on that liability in profit or loss.

2) New and revised standards on consolidation, joint arrangement, and associates and disclosure

a) IFRS 10 "Consolidated Financial Statements"

IFRS 10 replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation - Special Purpose Entities". The Company considers whether it has control over other entities for consolidation. It has control over an investee only if it has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of its returns. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

b) IFRS 11 “Joint Arrangements”

IFRS 11 replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities - Non-Monetary Contributions by Ventures”. Joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Joint ventures are accounted for using the equity method. Under IAS 31, Joint arrangements are classified as jointly controlled entities, jointly controlled assets, and jointly controlled operations, and the Company accounts for its jointly controlled entities using the proportionate consolidation method.

c) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than in the current standards.

d) Revision to IAS 28 “Investments in Associates and Joint Ventures”

Revised IAS 28 requires when a portion of an investment in an associate meets the criteria to be classified as held for sale, that portion is classified as held for sale. Any retained portion that has not been classified as held for sale is accounted for using the equity method. Under current IAS 28, when a portion of an investment in associates meets the criteria to be classified as held for sale, the entire investment is classified as held for sale and ceases to apply the equity method.

Under revised IAS 28, when a portion of an investment in an associate is held by, or is held indirectly through, an entity that is a venture capital organization, the Group elects to measure the investment at fair value through profit or loss. Any remaining portion of its investment in that associate that is not held through a venture capital organization is accounted for using the equity method. Under current IAS 28, the entire investment in the associate is accounted for using equity method regardless of whether the investments are held by, or are held indirectly through, an entity that is a venture capital organization.

3) 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.

4) Amendment to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendment to IAS 1 requires items of other comprehensive income to be grouped into those that (1) will not be reclassified subsequently to profit or loss; and (2) will be reclassified subsequently to profit or loss when specific conditions are met. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

5) Revision to IAS 19 “Employee Benefits”

Revised IAS 19 requires the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the “corridor approach” permitted under current IAS 19 and accelerate the recognition of past service costs. The revision requires all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in current IAS 19 are replaced with a "net interest" amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

6) 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.

7) New issued IFRIC 21 "Levies"

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Company accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

c. Significant impending changes in accounting policy resulting from the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers in issue but not yet effective

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 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

On May 14, 2009, the FSC announced the "Framework for the Adoption of IFRSs by the Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (the "IFRSs") endorsed by the FSC.

The Company's financial statements for the year ended December 31, 2013 is its first IFRS financial statements prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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, 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 and foreign exchange rate 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.

a. Onerous contracts

Where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract, the present obligations arising under onerous contracts are recognized and measured as provisions.

b. Aircraft lease contracts

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the 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 sales 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 (19), 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, 2013	December 31, 2012	January 1, 2012
Cash on hand and revolving fund	$ 125,312	$ 112,610	$ 123,396
Checking accounts and demand deposits	4,611,834	4,713,159	4,256,564
Cash equivalent			
Time deposits with original maturities less than three months	9,334,516	3,985,688	3,767,682
Repurchase agreements collateralized by bonds	899,155	199,907	799,755
	$ 14,970,817	$ 9,011,364	$ 8,947,397

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

	December 31, 2013	December 31, 2012	January 1, 2012
Bank balance	0%-2%	0%-2.5%	0%-1.17%
Time deposits with original maturities less than three months	0.8%-6.5%	0.27%-4.45%	0.15%-4.23%
Repurchase agreements collateralized by bonds	0.58%-0.6%	0.755%-0.83%	0.78%-0.87%

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

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets held for trading - current			
Derivative financial assets (not under hedge accounting)			
Foreign exchange forward contracts	$ 23,254	$ -	$ -

(Continued)

	December 31, 2013	December 31, 2012	January 1, 2012
Non-derivative financial assets			
Beneficial certificates	$ -	$ 600,404	$ 3,004,222
Domestic quoted shares	-	653,211	274,517
	-	1,253,615	3,278,739
	$ 23,254	$ 1,253,615	$ 3,278,739
Financial liabilities held for trading - current			
Derivative financial assets (not under hedge accounting)			
Foreign exchange forward contracts	$ 2,799	$ -	$ -
Financial assets at FVTPL - noncurrent			
Convertible bonds			
China Life Insurance Co., Ltd.	$ -	$ -	$ 374,085

(Concluded)

Of the above convertible bonds, a portion with an aggregate face value of $250,000,000 was converted into 29,137,529 common shares of China Life Insurance Co., Ltd. on April 19, 2012 at the conversion price of NT$8.58 per share and reclassified to financial assets at fair value through profit or loss - current, and the Company has disposed all the securities before March, 2013.

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, 2013			
Buy	NTD/USD	2014.01.03-2014.07.08	NTD2,078,418/USD70,500

The Company entered into foreign exchange forward contracts during 2013 and 2012 to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. Part of foreign exchange forward contracts were not account for using hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Current						
Foreign marketable equity securities						
France Telecom	$ 72,440	-	$ 62,738	-	$ 96,131	-

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31, 2013	December 31, 2012	January 1, 2012
Derivative financial assets under hedge accounting			
Interest rate swaps	$ 5,617	$ 759	$ -
Foreign exchange forward contracts	-	47	9,674
Currency options	27,033	38,956	5,396
Fuel swaps	107,970	13,764	93,597
	$ 140,620	$ 53,526	$ 108,667
Current	$ 135,003	$ 52,767	$ 108,667
Noncurrent	5,617	759	-
	$ 140,620	$ 53,526	$ 108,667
Derivative financial liabilities under hedge accounting			
Interest rate swaps	$ 2,026	$ 15,167	$ 26,578
Foreign exchange forward contracts	-	15,771	766
Currency options	1,255	730	3,540
Fuel swaps	21,598	3,464	41,517
	$ 24,879	$ 35,132	$ 72,401
Current	$ 22,853	$ 23,702	$ 47,076
Noncurrent	2,026	11,430	25,325
	$ 24,879	$ 35,132	$ 72,401

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, 2013			
NTD5,240,000	2014.08.24-2017.06.22	0.9%-1.14%	6165 page 3M CP rate

(Continued)

December 31, 2012			
NTD6,080,000	2013.04.11-2017.06.22	0.7%-2.42%	6165 page 3M CP rate
January 1, 2012			
NTD3,335,000	2012.04.26-2016.11.28	0.99%-2.60%	6165 page 3M CP rate

(Concluded)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is Reuters 6165 page 3M CP rate. The Company will settle the difference between the fixed and floating interest rates on a net basis.

b. Foreign exchange forward

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

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2013	None		
December 31, 2012			
Buy	NTD/USD	2013.01.10-2013.04.11	NTD1,085,297/USD37,000
January 1, 2012			
Buy	NTD/USD	2012.01.20-2012.06.15	NTD1,079,105/USD36,000

c. 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, 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

(Continued)

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2012			
Buy USD call option	JPY/USD	2013.01.08-2013.06.07	JPY1,918,450/USD23,500
Sell USD put option	JPY/USD	2013.01.08-2013.06.07	JPY1,840,745/USD23,500
January 1, 2012			
Buy USD call option	JPY/USD	2012.01.06-2012.05.25	JPY1,832,900/USD23,000
Sell USD put option	JPY/USD	2012.01.06-2012.05.25	JPY1,716,570/USD23,000

(Concluded)

d. 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, 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
December 31, 2012			
Buy fuel call option	USD	2012.07.01-2013.03.31	NTD13,764
Sell fuel put option	USD	2012.07.01-2013.03.31	NTD3,464
January 1, 2012			
Buy fuel call option	USD	2012.03.31-2012.06.30	NTD93,597
Sell fuel put option	USD	2012.03.31-2012.06.30	NTD41,517

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 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	
	2013	2012
Decrease in operating cost	$ 136,089	$ 84,786
Increase in finance cost	(9,954)	(19,002)
Other foreign exchange gain	93,206	14,110
	$ 219,341	$ 79,894

10. FINANCIAL ASSETS CARRIED AT COST

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	% of Ownership	Amount	% of Ownership	Amount	% of Ownership
Unlisted common stocks						
Abacus International Holdings Ltd.	$ 297,946	14	$ 297,946	14	$ 297,946	14
Jardine Air Terminal Services	56,023	15	56,023	15	56,023	15
Chung Hwa Express Co.	11,000	11	11,000	11	11,000	11
Regal International Advertising	5,925	6	5,925	6	5,925	6
	370,894		370,894		370,894	
Unlisted preferred stocks						
Abacus International Holdings Ltd.	473	-	473	-	473	-
	$ 371,367		$ 371,367		$ 371,367	
Classified according to financial asset measurement categories						
Available-for-sale financial assets	$ 371,367		$ 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 can not be reasonably assessed various estimates of probability, the Company's management believes its fair value can not be reliably measured.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	$ 291,248	$ 258,580	$ 294,226
Accounts receivable			
Accounts receivable	7,118,748	6,852,272	9,558,405
Less: Allowance for impairment loss	(45,604)	(52,034)	(129,010)
	7,073,144	6,800,238	9,429,395
	$ 7,364,392	$ 7,058,818	$ 9,723,621

The average credit period was 30 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.

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

	For the Year Ended December 31	
	2013	2012
Balance at January 1	$ 52,034	$ 129,010
Less: Amounts written off as uncollectible	(6,430)	(76,976)
Balance at December 31	$ 45,604	$ 52,034

12. INVENTORIES

	December 31, 2013	December 31, 2012	January 1, 2012
Aircraft spare parts	$ 6,246,657	$ 6,213,227	$ 6,003,368
Items for in-flight sale	403,380	360,616	352,997
Work in process - maintenance services	27,044	134,493	157,356
	$ 6,677,081	$ 6,708,336	$ 6,513,721

The cost of inventories recognized as operating costs due to write-downs of inventories was $149,430 thousand and $112,174 thousand.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31, 2013	December 31, 2012	January 1, 2012
Investments in subsidiaries	$ 7,909,086	$ 6,784,417	$ 6,780,856
Investments in associates	1,069,607	1,033,544	1,028,998
Investments in jointly controlled entities	849,425	815,302	766,146
	$ 9,828,118	$ 8,633,263	$ 8,576,000

a. Investment in subsidiaries

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted companies			
Taiwan Air Cargo Terminal	$ 1,355,357	$ 1,137,396	$ 1,290,975
Cal Park	1,479,619	1,469,920	1,466,188
Mandarin Airlines	1,102,073	1,183,101	1,123,584
Cal-Dynasty International	1,056,433	1,016,755	1,050,254
Taoyuan International Airport Services	604,510	509,672	419,864
Cal-Asia Investment	1,275,313	457,661	408,831
Abacus Distribution Systems (Taiwan)	420,209	410,112	398,588
Taiwan Airport Services	252,587	255,200	272,023

(Continued)

	December 31, 2013	December 31, 2012	January 1, 2012
Cal Hotel	$ 210,275	$ 193,634	$ 203,062
Hwa Hsia	78,810	74,625	76,259
Dynasty Holidays	30,986	35,787	37,612
Yestrip	36,353	33,543	26,350
Global Sky Express	6,471	6,924	7,176
Freighter Princess Ltd.	30	29	30
Freighter Prince Ltd.	30	29	30
Freighter Queen Ltd.	30	29	30
	$ 7,909,086	$ 6,784,417	$ 6,780,856

(Concluded)

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, 2013	December 31, 2012	January 1, 2012
Taiwan Air Cargo Terminal	54%	54%	54%
Cal Park	100%	100%	100%
Mandarin Airlines	94%	94%	94%
Cal-Dynasty International	100%	100%	100%
Taoyuan International Airport Services	49%	49%	49%
Cal-Asia Investment	100%	100%	100%
Abacus Distribution Systems (Taiwan)	94%	94%	94%
Taiwan Airport Services	47%	47%	47%
Cal Hotel	100%	100%	100%
Hwa Hsia	100%	100%	100%
Dynasty Holidays	51%	51%	51%
Yestrip	100%	100%	100%
Global Sky Express	25%	25%	25%
Freighter Princess Ltd.	100%	100%	100%
Freighter Prince Ltd.	100%	100%	100%
Freighter Queen Ltd.	100%	100%	100%

The Company holds less than 50% of the issued share capital of Tauyuan International Airport Service, Taiwan Airport Service and Global Sky Express, since the Company is able to exercise significant influence, above companies are 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.

To meet the operation demand, CAL-Asia investment issued common stock for cash $14,535 thousand and $30,409 thousand in January, 2013 and May, 2012, respectively. The Company acquired all the additional shares.

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, 2013 and 2012 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:

	2013	2012
The share of profit or loss	$ 1,307,429	$ 321,870

b. Investments in associates

	December 31, 2013	December 31, 2012	January 1, 2012
Unlisted companies			
China Aircraft Services	$ 407,725	$ 381,819	$ 381,187
Kaohsiung Catering Services	225,221	228,777	239,741
Asian Compressor Technology Services	244,486	233,647	230,666
Science Park Logistics	192,175	189,301	177,404
	$ 1,069,607	$ 1,033,544	$ 1,028,998

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, 2013	December 31, 2012	January 1, 2012
China Aircraft Services	20%	20%	20%
Kaohsiung Catering Services	36%	36%	36%
Asian Compressor Technology Services	25%	25%	25%
Science Park Logistics	28%	28%	28%

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2013 and 2012 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, 2013 and 2012 and January 1, 2012, the balance of goodwill were all $53,844 thousand. Shown below are the movements in 2013 and 2012 of goodwill.

	Goodwill	Transaction between Company and Subsidiary
December 31, 2013		
Balance, beginning of year	$ 53,844	$ 84,910
Reduction	-	(32,868)
Balance, end of year	$ 53,844	$ 52,042
December 31, 2012		
Balance, beginning of year	$ 53,844	$ 117,778
Reduction	-	(32,868)
Balance, end of year	$ 53,844	$ 84,910

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

	2013	2012
China Aircraft Services	$ 28,183	$ 21,069
Kaohsiung Catering Services	95,711	99,849
Asian Compressor Technology Services	47,306	40,921
Science Park Logistics	27,562	25,190
	$ 198,762	$ 187,029

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
China Pacific Catering Services	$ 685,797	$ 658,232	$ 619,404
China Pacific Laundry Services	163,628	157,070	146,742
	$ 849,425	$ 815,302	$ 766,146

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, 2013	December 31, 2012	January 1, 2012
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	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.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Current assets	$ 594,412	$ 505,338	$ 445,465
Noncurrent assets	$ 612,753	$ 642,430	$ 629,009
Current liabilities	$ 216,257	$ 215,248	$ 192,776
Noncurrent liabilities	$ 141,483	$ 117,218	$ 115,552

	For the Year Ended December 31	
	2013	2012
Income recognized in profit or loss	$ 1,188,922	$ 1,128,437
Expenses recognized in profit or loss	$ 1,001,632	$ 959,053
Other comprehensive income	$ 4,714	$ 7,709

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2013 and 2012 was based on the jointly controlled entities' financial statements audited by the auditor for the same years.

14. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2013	December 31, 2012	January 1, 2012
Cost			
Freehold land	$ 210,350	$ 210,350	$ 219,850
Buildings	7,368,106	7,286,415	7,301,389
Flight equipment	222,507,866	207,456,231	206,021,290
Equipment under finance lease	38,078,519	51,327,865	51,305,619
Machinery equipment	4,104,144	4,103,114	4,159,897
Office equipment	668,892	708,947	693,434
Leasehold improvements	1,104,439	1,044,553	996,380
Construction in progress	3,834	34,824	35,469
	$ 274,046,150	$ 272,172,299	$ 270,733,328
Accumulated depreciation			
Buildings	$ 3,181,061	$ 2,911,004	$ 2,735,168
Flight equipment	108,498,875	90,799,422	80,326,571
Equipment under finance lease	17,767,630	22,293,677	19,619,778
Machinery equipment	3,211,113	3,112,732	3,050,569
Office equipment	476,155	476,110	413,078
Leasehold improvements	965,303	901,359	832,767
	$ 134,100,137	$ 120,494,304	$ 106,977,931
Net value	$ 139,946,013	$ 151,677,995	$ 163,755,397

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Lease	Others	Total
Cost						
Balance at January 1, 2012	$ 219,850	$ 7,301,389	$ 206,021,290	$ 51,305,619	$ 5,885,180	$ 270,733,328
Additions	-	21,707	3,629,146	561,209	190,771	4,402,833
Disposals	(9,500)	(29,218)	(2,537,261)	(538,963)	(194,015)	(3,308,957)
Reclassification	-	(7,463)	343,056	-	9,502	345,095
Balance at December 31, 2012	$ 210,350	$ 7,286,415	$ 207,456,231	$ 51,327,865	$ 5,891,438	$ 272,172,299
Accumulated depreciation and impairment						
Balance at January 1, 2012	$ -	$ (2,735,168)	$ (80,326,571)	$ (19,619,778)	$ (4,296,414)	$ (106,977,931)
Depreciation expense	-	(186,191)	(12,386,691)	(3,210,190)	(386,425)	(16,169,497)
Disposals	-	10,355	1,865,203	536,291	192,426	2,604,275
Reclassification	-	-	48,637	-	212	48,849
Balance at December 31, 2012	$ -	$ (2,911,004)	$ (90,799,422)	$ (22,293,677)	$ (4,490,201)	$ (120,494,304)

(Continued)

	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)

(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 equipments	
Electro-mechanical equipment	25 years
Others	3-13 years
Flight equipments and equipments under finance lease	
Airframe	20-25 years
Aircraft cabin	7-13 years
Engine	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 equipments	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Assets leased to others	3-5 years

The Company’s flight equipment and leased assets included the aircraft fuselage, passenger cabin, engine, heavy maintenance on aircraft engine overhauls, aircraft landing gear overhaul and repairable spare parts and other major component.

For certain buildings, the Company elected to use the revalued amount under ROC GAAP as deemed cost under IFRSs on January 1, 2012.

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

15. INVESTMENT PROPERTIES

	December 31, 2013	December 31, 2012	January 1, 2012
Carrying amount			
Investment properties	$ 2,047,448	$ 1,468,433	$ 1,468,433

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

The fair value of the investment properties held by the Company were $2,316,300 thousand, $1,468,433 thousand and $1,468,433 thousand on December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

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

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 $2,047,488 thousand, therefore the all impairment loss was reversed (included in other income - other).

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

	Cost	Accumulated Impairment	Net Value
Balance at January 1, 2012	$ 2,047,448	$ (579,015)	$ 1,468,433
Additions	-	-	-
Balance at December 31, 2012	$ 2,047,448	$ (579,015)	$ 1,468,433
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

16. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Accumulated Amortization	Net Value
Balance at January 1, 2012	$ 726,522	$ (340,796)	$ 385,726
Additions	61,314	-	61,314
Amortization expense	-	(38,818)	(38,818)
Balance at December 31, 2012	$ 787,836	$ (379,614)	$ 408,222
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

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

17. OTHER ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Current			
Temporary Payments	$ 281,673	$ 600,352	$ 398,443
Prepayments	462,141	446,742	451,574
Others	376,242	314,354	384,274
	$ 1,120,056	$ 1,361,448	$ 1,234,291
Noncurrent			
Prepayments for aircraft	$ 15,397,766	$ 8,708,335	$ 5,115,314
Prepayments-long-term	1,767,537	1,085,101	715,842
Refundable deposits	743,250	971,933	1,296,794
Restricted assets	487,649	545,460	660,980
Other financial assets	14,040	13,660	12,980
	$ 18,410,242	$ 11,324,489	$ 7,801,910

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, 2013	December 31, 2012	January 1, 2012
Bank loans - unsecured	$ -	$ 1,600,000	$ -

The range of interest rate on bank loans was 1.15%-1.23% on December 31, 2012.

b. Long-term debts

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured bank loans	$ 19,875,000	$ 20,637,428	$ 21,486,620
Secured bank loans	34,188,569	44,509,550	55,715,003
Commercial paper			
Proceeds from issue	20,655,000	15,305,000	10,255,000
Less: Unamortized discount	40,481	31,134	23,251
	74,678,088	80,420,844	87,433,372
Less: Current portion	25,001,950	16,671,452	18,047,762
	$ 49,676,138	$ 63,749,392	$ 69,385,610

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

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

	Currency		
	New Taiwan Dollars	**U.S. Dollars**	**Japanese Yen**
Original currency			
December 31, 2013	$ 41,844,455	$ 410,562	$ -
December 31, 2012	45,816,983	664,951	-
January 1, 2012	49,575,497	895,742	1,240,000
Translated in New Taiwan dollars			
December 31, 2013	41,844,455	12,219,114	-
December 31, 2012	45,816,983	19,329,995	-
January 1, 2012	49,575,497	27,143,692	482,434
Interest rates			
December 31, 2013	1.283%-2.647%	0.2376%-4.79%	-
December 31, 2012	1.287%-2.638%	0.308%-4.39%	-
January 1, 2012	0.7%-2.6%	0.3911%-4.77%	0.6957%
Periods			
December 31, 2013	2002/4/11-2020/2/26	2003/07/22-2017/09/21	-
December 31, 2012	2002/4/11-2020/2/26	2001/07/20-2017/09/21	-
January 1, 2012	2002/4/11-2020/2/26	2000/07/06-2017/09/21	2007/12/26-2012/12/26

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 1.302%-2.121% in 2013, 1.375% to 2.125% in 2012 and 1.341% to 2.102% in 2011.

19. BONDS PAYABLE

	December 31, 2013	December 31, 2012	January 1, 2012
Five-year secured domestic bonds - issued at par in			
November 2007; repayable in November 2010, November 2011 and November 2012; indicator rate plus 0.4% interest p.a., payable quarterly	$ -	$ -	$ 1,200,000
January 2010; repayable in January 2013, January 2014 and January 2015; indicator rate plus 1.5% interest p.a., payable quarterly	910,000	1,300,000	1,300,000
February 2010; repayable in February 2013, February 2014 and February 2015; indicator rate plus 1.5% interest p.a., payable quarterly	1,610,000	2,300,000	2,300,000
May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually	6,000,000	6,000,000	6,000,000
Three-year private unsecured bonds - issued at par in			
April 2009; repayable in April 2012; 3.4% interest p.a., payable semiannually	-	-	8,800,000
June 2009; repayable in June 2012; 3.4% interest p.a., payable semiannually	-	-	2,200,000
May 2010; repayable in May 2013; 2.8% interest p.a., payable semiannually	-	5,050,000	5,050,000
January 2012; repayable in January 2015; 2% interest p.a., payable semiannually	5,785,000	5,785,000	-
Five-year private unsecured bonds - issued at par in			
April 2009; repayable in April 2014; 3.6% interest p.a., payable semiannually	1,100,000	1,100,000	1,100,000
June 2009; repayable in June 2014; 3.6% interest p.a., payable semiannually.	800,000	800,000	800,000
January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	5,400,000	-	-
Seven-year private unsecured bonds - issued at par in			
January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	5,500,000	-	-
Five-year convertible bonds - issued at discount in			
December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	6,000,000	-	-
Less: Bonds payable discount	516,977	-	-
	32,588,023	22,335,000	28,750,000
Less: Current portion	4,780,000	6,130,000	12,200,000
	$ 27,808,023	$ 16,205,000	$ 16,550,000

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

In May 2010, the Company made a first issue of 2010 private unsecured bonds with aggregate face value of $5,050,000 thousand. The investors included these affiliates: Taoyuan International Airport Services, Mandarin Airlines, Abacus Distribution Systems (Taiwan), China Pacific Catering Services and Hwa Hsia,

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).

On December 26, 2013, the Company made a first issue of 2013 unsecured convertible bonds, with the coupon rate of 0 % and the effective interest rate of 1.8245%. 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, 2013, there was no adjustment to the conversion price and no convention occurred.

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, 2013	December 31, 2012	January 1, 2012
Minimum lease payments			
Not later than one year	$ 4,368,184	$ 5,279,608	$ 3,745,039
Later than one year and not later than five years	7,853,000	9,249,264	13,321,067
Later than five years	596,000	3,562,000	4,816,000
Present value of minimum lease payments	$ 12,817,184	$ 18,090,872	$ 21,882,106
Current	$ 4,368,184	$ 5,279,608	$ 3,745,039
Noncurrent	8,449,000	12,811,264	18,137,067
	$ 12,817,184	$ 18,090,872	$ 21,882,106

The Company leased certain of its A340-300 aircraft and sixteen engines by sale-leaseback under finance leases. The lease terms are from April 2001 to December 2018. 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 rates underlying all obligations under finance leases were floated ranging from 1.306%-2.244% and 1.296%-2.273% per annum in 2013 and 2012, respectively.

21. OTHER PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Fuel cost	$ 4,137,233	$ 3,450,813	$ 4,462,222
Ground service expense	860,276	980,111	1,407,292
Repair expense	468,454	521,967	1,158,029
Interest expense	376,335	228,256	261,163
Short-term employee benefits	1,241,130	1,136,741	1,522,629
Terminal surcharges	606,499	591,275	447,231
Commission expense	566,609	512,673	569,553
Others	4,791,412	2,284,496	2,466,848
	$ 13,047,948	$ 9,706,332	$ 12,294,967

22. DEFERRED REVENUE

	December 31, 2013	December 31, 2012	January 1, 2012
Advance ticket sales	$ 7,759,948	$ 7,168,398	$ 8,771,281
Frequent flyer program	2,587,189	2,636,952	2,182,694
	$ 10,347,137	$ 9,805,350	$ 10,953,975
Current	$ 8,437,388	$ 7,837,700	$ 9,242,298
Noncurrent	1,909,749	1,967,650	1,711,677
	$ 10,347,137	$ 9,805,350	$ 10,953,975

23. PROVISIONS

	December 31, 2013	December 31, 2012	January 1, 2012
Operating lease - aircraft	$ 2,591,678	$ 1,825,382	$ 1,379,620

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, 2012	$ 1,379,620
Additional provisions recognized	627,596
Usage	(181,834)
Balance at December 31, 2012	$ 1,825,382
Balance at January 1, 2013	$ 1,825,382
Additional provisions recognized	882,876
Usage	(116,580)
Balance at December 31, 2013	$ 2,591,678

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 7% 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, 2013	December 31, 2012	January 1, 2012
Discount rates	1.92%	1.54%	1.50%
Expected return on plan assets	1.92%	1.54%	2.00%
Expected rates of salary increase	1.50%	1.50%	1.50%

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	For the Year Ended December 31	
	2013	2012
Current service cost	$ 211,368	$ 242,114
Interest cost	163,494	159,455
Expected return on plan assets	(33,061)	(47,395)
Past service cost	59,136	59,136
	$ 400,937	$ 413,310
An analysis by function		
Operating cost	$ 292,966	$ 279,325
Operating expense	107,971	133,985
	$ 400,937	$ 413,310

Actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2013 and 2012 was $41,911 thousand and $447,297 thousand, respectively. The cumulative amount of actuarial gains or losses recognized in other comprehensive income as of December 31, 2013 and 2012 was $489,208 thousand and $447,297 thousand, respectively.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	$ 11,390,715	$ 11,727,654	$ 11,549,012
Fair value of plan assets	(2,511,360)	(2,699,797)	(2,710,959)
Deficit	8,879,355	9,027,857	8,838,053
Past service cost unrecognized	-	(59,136)	(118,271)
Accrued pension costs	$ 8,879,355	$ 8,968,721	$ 8,719,782

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

	For the Year Ended December 31	
	2013	2012
Defined benefit obligation at the beginning of the year	$ 11,727,654	$ 11,549,012
Current service cost	211,368	242,114
Interest cost	163,494	159,455
Actuarial losses	41,942	425,880
Benefits paid	(753,743)	(648,807)
Defined benefit obligation at the end of the year	$ 11,390,715	$ 11,727,654

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

	For the Year Ended December 31	
	2013	2012
Fair value of plan assets at the beginning of the year	$ 2,699,797	$ 2,710,959
Expected return on plan assets	33,061	47,395
Actuarial gains/(losses)	31	(21,417)
Contributions from the employer	451,862	520,715
Benefits paid	(673,391)	(557,855)
Fair value of plan assets at the end of the year	$ 2,511,360	$ 2,699,797

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, 2013	December 31, 2012	January 1, 2012
Equity instruments	38.25%	40.75%	40.75%
Debt instruments	40.69%	19.19%	19.19%
Others	21.06%	40.06%	40.06%
	100.00%	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, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	$ 11,390,715	$ 11,727,654	$ 11,549,012
Fair value of plan assets	$ (2,511,360)	$ (2,699,797)	$ (2,710,959)
Deficit	$ 8,879,355	$ 9,027,857	$ 8,838,053
Experience adjustments on plan liabilities	$ 41,942	$ 425,880	$ -
Experience adjustments on plan assets	$ (31)	$ 21,417	$ -

The Company expects to make a contribution of $453,510 thousand to the defined benefit plans during the annual period beginning after 2013.

25. EQUITY

a. Share capital

1) Common shares

	December 31, 2013	December 31, 2012	January 1, 2012
Numbers of shares authorized (in thousands)	6,000,000	6,000,000	5,200,000
Amount of shares authorized	$ 60,000,000	$ 60,000,000	$ 52,000,000
Amount of shares issued	$ 52,000,000	$ 52,000,000	$ 46,316,224
Shares premium	1,391,536	1,391,536	391,867
	$ 53,391,536	$ 53,319,536	$ 46,708,091

To meet the Company's financial demand for its operation as well as repay its debt, the board resolved in June 2011 to publicly issue 568,378 thousand common shares at NT$11.73 per share, with NT$10 par value. On August 10, 2011, the above transaction was approved by the Financial Supervisory Commission (FSC), and the subscription base date was determined at February 10, 2012 by board of directors and the record date of February 10, 2012. The Company completed the registration of this capital increase on February 20, 2012.

b. Capital surplus

	December 31, 2013	December 31, 2012	January 1, 2012
Issue of stock in excess of par value	$ 1,391,536	$ 1,391,536	$ 391,867
Employee stock options expired	11,747	11,747	-
Employee stock options	-	-	28,123
Long-term investment	955	955	955
Gain on sale of treasury shares held by subsidiaries	1,156	1,156	1,156
Bonds payable equity component	518,621	-	-
	$ 1,924,015	$ 1,405,394	$ 422,101

Under the Company Law, 10% of the publicly issued common shares should be reserved for subscription by the Company's employees. In December 2011, the board resolved the amount of shares and price for subscription by the employees. Under Statement of Financial Accounting Standards No. 39 - "Share-based Payment," the compensation cost of employee stock options was recognized on the grant date, using the fair value method.

	Number of Options (In Thousands)	Weighted -average Exercise Price
Employee stock options on a capital increase in 2012		
Options granted	56,838	$ 11.73
Options exercised	(33,097)	11.73
Options expired	(23,741)	11.73
	-	
Weighted-average fair value of options granted	$ 0.4948	

Options granted were priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

Grant-date share price	$12.15
Exercise price	$11.73
Expected volatility	39.89%
Expected life	5 days
Expected dividend yield	-
Risk-free interest rate	0.7687%

The compensation cost of employee stock options issued for a capital increase in December 2011 was recognized at $28,123 thousand, which was reclassified in February 2012 to capital surplus - issuance of common shares at fair value of $16,376 thousand and capital surplus - expired employee stock options of $11,747 thousand.

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, employee stock options and conversion 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 both cash and stock dividends (cash dividend should not be less than 30% of the total dividends) or stock dividends only. 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 stockholders resolved to offset the accumulated deficit of 2011 in the stockholders' meeting held on June 15, 2012. The Company offset the accumulated deficit (a net loss of $1,954,271 thousand) against the unappropriated earnings of $181,950 thousand, a special reserve of $1,288,702 thousand, and the legal reserve of $483,620 thousand. No bonus to employees was appropriated for 2011 because of the net loss in that year.

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.

On March 27, 2014, the board resolved to offset the accumulated deficit in 2013. The deficit, included a net loss of $1,274,046 thousand, negative other retained earning of $45,380 thousand, and the unappropriated deficits of $6,089,873 thousand, the remaining amount of accumulated deficit was $3,483,293 thousand. The Company offset the accumulated deficit against legal reserve of $321,891 thousand. No bonus to employees was appropriated for 2013 because of a net loss in that year.

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

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, 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
Balance at January 1, 2012	$ -	$ 15,155	$ 34,855	$ 50,010
Exchange differences arising on translating the foreign operations	(70,014)	-	-	(70,014)
Unrealized gain (loss) on available-for-sale financial assets	-	(33,393)	-	(33,393)
Cash flow hedge	-	-	57,761	57,761
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(79,894)	(79,894)
Share of exchange difference of associates accounted for using the equity method	(2,734)	(4,105)	-	(6,839)
Income tax	12,367	5,677	3,763	21,807
Balance at December 31, 2012	$ (60,381)	$ (16,666)	$ 16,485	$ (60,562)

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
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
Year ended December 31, 2012			
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, 2013			
Mandarin Airlines	2,075	$ 22,717	$ 22,717
Hwa Hsia	814	8,915	8,915
		$ 31,632	$ 31,632
December 31, 2012			
Mandarin Airlines	2,075	$ 24,895	$ 24,895
Hwa Hsia	814	9,770	9,770
		$ 34,665	$ 34,665
January 1, 2012			
Mandarin Airlines	2,075	$ 27,385	$ 27,385
Hwa Hsia	814	10,747	10,747
		$ 38,132	$ 38,132

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 PROFIT (LOSS)

a. Other income

	For the Year Ended December 31	
	2013	2012
Interest income	$ 275,404	$ 180,921
Subsidy income	182,025	119,843
Dividend income	65,403	186,901
Others	820,583	502,899
	$ 1,343,415	$ 990,564

b. Other gains and losses

	For the Year Ended December 31	
	2013	2012
Gain on disposal property, plant and equipment	$ 3,725	$ 52,864
Net gain arising on financial assets classified as held for trading	130,884	472,167
Gain on foreign exchange, net	82,971	1,058,116
Others	(379,889)	(487,563)
	$ (162,309)	$ 1,095,584

c. Finance costs

	For the Year Ended December 31	
	2013	2012
Interest on bonds payable	$ 562,686	$ 654,721
Interest on bank loans	1,289,608	1,527,791
Interest on obligations under finance leases	184,799	245,090
Loss arising on derivatives as designated hedging instruments in cash flow hedge accounting relationship reclassified from equity to profit or loss	9,954	19,002
	$ 2,047,047	$ 2,446,604

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2013	2012
Capitalized interest	$ 160,749	$ 90,300
Capitalization rate	1.85%-1.91%	1.91%-2.26%

d. Depreciation and amortization

	For the Year Ended December 31	
	2013	2012
Property, plant and equipment	$ 16,485,432	$ 16,169,497
Intangible assets	43,077	38,817
	$ 16,528,509	$ 16,208,314
An analysis of deprecation by function		
Operating costs	$ 16,133,489	$ 15,815,499
Operating expenses	351,943	353,998
	$ 16,485,432	$ 16,169,497
An analysis of amortization by function		
Operating expenses	$ 43,077	$ 38,817

e. Employee benefits expense

	For the Year Ended December 31	
	2013	2012
Post-employment benefits		
Defined contribution plans	$ 120,016	$ 114,198
Defined benefit plans	400,937	413,309
	$ 520,953	$ 527,507
Other employee benefits		
Salary expenses	$ 11,309,878	$ 11,438,960
Personnel service expenses	1,794,616	1,905,396
	$ 13,104,494	$ 13,344,356
An analysis of employee benefit expense by function		
Operating costs	$ 11,167,044	$ 11,368,015
Operating expenses	2,458,403	2,503,848
	$ 13,625,447	$ 13,871,863

27. INCOME TAX

a. Income tax recognized in profit or loss

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

	For the Year Ended December 31	
	2013	2012
Current tax		
Current year	$ 76,217	$ 59,997
Deferred tax		
Current year	253,492	(100,404)
Income tax expense (benefit) recognized in profit or loss	$ 329,709	$ (40,407)

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

	For the Year Ended December 31	
	2013	**2012**
Loss before tax	$ (944,337)	$ (458,763)
Income tax expense (benefit) calculated at the statutory rate (17%)	$ (160,537)	$ (77,990)
Add (deduct) tax effects of:		
Nondeductible expenses in determining taxable income	8,389	762
Temporary differences	894,896	76,893
Tax-exempt income	(257,461)	(101,405)
Additional income tax under the Alternative Minimum Tax Act	41,720	-
Loss carryforwards - current used	(485,287)	-
Loss carryforwards - generated	-	101,740
Overseas income tax expense	34,124	59,964
Deferred tax		
Temporary differences	(438,580)	(151,245)
Investment tax credits - current	165,684	111,418
Unrecognized loss carryforwards and investment tax credits	526,389	(60,577)
Adjustments for prior years' tax	372	33
Income tax expense (benefit) recognized in profit or loss	$ 329,709	$ (40,407)

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2013	**2012**
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ (12,744)	$ 12,366
Fair value changes of available-for-sale financial assets	(1,648)	5,677
Fair value changes of hedging instruments for cash flow hedges	(16,406)	3,763
Actuarial loss on defined benefit plan	7,125	76,041
Total income tax recognized in other comprehensive income	$ (23,673)	$ 97,847

c. Deferred tax assets and liabilities

For the year ended December 31, 2013

Deferred tax assets	**Beginning Balance**	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Ending Balance**
Temporary differences				
Defined benefit plan	$ 1,524,377	$ (22,012)	$ 7,125	$ 1,509,490
Finance leases assets	731,148	(731,148)	-	-
Dynasty flyer program	458,870	(10,253)	-	448,617

(Continued)

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
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
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)

For the year ended December 31, 2012

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plan	$ 1,461,951	$ (13,615)	$ 76,041	$ 1,524,377
Finance leases assets	-	731,148	-	731,148
Dynasty flyer program	376,090	82,780	-	458,870
Depreciation of significant	170,062	172,580	-	342,642
Maintenance reserve	234,535	75,780	-	310,315
Depreciation of major spare part depreciation	164,219	36,641	-	200,860
Allowance for reduction of inventory	175,924	105,059	-	280,983
Others	428,863	(66,294)	9,904	372,473
Loss carryforwards	5,209,915	62,836	-	5,272,752
Investment credits	198,913	(50,840)	-	148,073
	$ 8,420,472	$ 1,136,075	$ 85,945	$ 9,642,493

(Continued)

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax liabilities				
Temporary differences				
Finance leases assets	$ -	$ 790,369	$ -	$ 790,369
Unrealized foreign exchange gain	2,110	234,938	-	237,048
Depreciation difference from fixed assets	146,009	(1,480)	-	144,529
Others	11,902	11,844	(11,902)	11,844
	$ 160,021	$ 1,035,671	$ (11,902)	$ 1,183,790

(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, 2013	December 31, 2012	January 1, 2012
Loss carryforwards			
Expiry in 2019	$ 3,200,000	$ -	$ -
Investment credits			
Personnel training	$ -	$ 82,844	$ 143,421
Automated equipment	65,233	-	-
	$ 65,233	$ 82,844	$ 143,421

d. Unused investment tax credits as of December 31, 2013 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	$ 40,542	$ 40,542	2014
		24,691	24,691	2015
		$ 65,233	$ 65,233	

e. Unused tax loss carryforwards as of December 31, 2013 were as follows:

Expiry Year	Unused Amount
2018	$ 5,317,848
2019	19,338,075
2021	2,899,496
2022	598,471
	$ 28,153,890

f. Integrated income tax

	December 31, 2013	December 31, 2012	January 1, 2012
Imputation credit accounts	$ 225,815	$ 111,570	$ 24,942

The Company had accumulated deficit as of December 31, 2013 and 2012; 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 2011 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	
	2013	2012
Basic and diluted loss per share	$ (0.25)	$ (0.08)

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	
	2013	2012
Net loss used to calculate loss per share	$ (1,274,046)	$ (418,356)

Number of Shares (Share in Thousands)

	For the Year Ended December 31	
	2013	2012
The weighted average number of shares used to calculate loss per share	5,197,111	5,134,993

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 January 2024. 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 quarterly or semiannually, subleasing is not allowed for all the lease arrangements. As of December 31, 2013, the Company has rented ten A330-300 aircrafts and three B737-800 aircrafts under operating contracts; the lease terms range from 8 to 12 years, with an extension option.

As of December 31, 2013, December 31, 2012 and January 1, 2012, the refundable deposits paid by the Company under operating lease contracts were $499,645 thousand, $513,271 thousand and $616,485 thousand, respectively. Part of the refundable deposits is secured by credit guarantees.

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

	December 31, 2013	December 31, 2012	January 31, 2012
Up to 1 year	$ 2,973,463	$ 2,903,354	$ 3,016,840
Over 1 year to 5 years	10,718,096	8,102,917	6,994,003
Over 5 years	11,667,231	9,385,992	6,127,591
	$ 25,358,790	$ 20,392,263	$ 16,138,434

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

	For the Year Ended December 31	
	2013	2012
Minimum lease payment	$ 2,967,896	$ 2,150,535

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, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities						
Bonds payable	$ 32,588,023	$ 33,210,597	$ 22,335,000	$ 21,330,022	$ 28,750,000	$ 28,844,150
Loans and debt	74,678,088	74,718,685	80,042,844	82,049,087	87,433,372	89,622,206

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 0.486% in 2013, 0.868% to 0.9051% in 2012 and 1.1281 % to 1.25% in 2011 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, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Derivative instrument	$ -	$ 23,254	$ -	$ 23,254
Available-for-sale financial assets				
Securities listed in other countries	$ 72,440	$ -	$ -	$ 72,440
Financial liabilities at FVTPL				
Derivative instrument	$ -	$ 2,799	$ -	$ 2,799
Derivative financial assets for hedging	$ -	$ 140,620	$ -	$ 140,620
Derivative financial liabilities for hedging	$ -	$ 24,879	$ -	$ 24,879

December 31, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market fund	$ 600,404	$ -	$ -	$ 600,404
Securities listed in the ROC	653,211	-	-	653,211
	$ 1,253,615	$ -	$ -	$ 1,253,615
Available-for-sale financial assets				
Securities listed in other countries	$ 62,738	$ -	$ -	$ 62,738
Derivative financial assets for hedging	$ -	$ 53,526	$ -	$ 53,526
Derivative financial liabilities for hedging	$ -	$ 35,132	$ -	$ 35,132

January 1, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Financial assets designated as at FVTPL	$ 3,004,222	$ -	$ -	$ 3,004,222
Securities listed in the ROC	274,517	-	-	274,517
	$ 3,278,739	$ -	$ -	$ 3,278,739
Available-for-sale financial assets				
Securities listed in other countries	$ 96,131	$ -	$ -	$ 96,131
Derivative financial assets for hedging	$ -	$ 108,667	$ -	$ 108,667
Derivative financial liabilities for hedging	$ -	$ 72,401	$ -	$ 72,401

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 instruments designated as 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, 2013	December 31, 2012	January 1, 2012
Financial assets			
Financial assets at FVTPL	$ 23,254	$ 1,253,615	$ 3,652,824
Available-for-sale financial assets	72,440	62,738	96,131
Derivative financial assets for hedging	140,620	53,526	108,667
Financial assets carried at cost	371,367	371,367	371,367
Loans and receivables (1)	24,542,746	18,372,879	21,430,016
	$ 25,150,427	$ 20,114,125	$ 25,659,005
Financial liabilities			
Financial liabilities at FVTPL	$ 2,799	$ -	$ -
Derivative financial liabilities for hedging	24,879	35,132	72,401
Financial liabilities at amortized cost (2)	135,336,140	134,068,940	152,511,764
	$ 135,361,018	$ 134,104,072	$ 152,584,165

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 - noncurrent.

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.

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 financial 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, 2013	**December 31, 2012**	**January 1, 2012**
Assets			
USD	137,638	59,054	123,586
EUR	17,007	14,950	13,462
HKD	338,315	289,355	360,576
JPY	2,728,839	2,202,309	1,517,912
RMB	1,836,235	1,024,262	873,956
Liabilities			
USD	583,492	883,538	1,185,879
EUR	7,416	7,016	9,709
HKD	75,978	63,061	59,839
JPY	4,274,591	3,423,950	4,872,121
RMB	324,472	308,515	236,237

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.

The range of sensitive analysis includes assets and liabilities is not denominated by functional currency. When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be an increase in pre-tax profit for the years ended December 31, 2013 and 2012, $91,377 thousand and $643,649 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. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

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, 2013	**December 31, 2012**	**January 1, 2012**
Fair value interest rate risk			
Financial liabilities	$ 31,618,152	$ 20,737,309	$ 24,596,691
Cash flow interest rate risk			
Financial liabilities	88,465,143	101,709,408	113,468,786

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 been 100 basis points higher 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.

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, 2012 would have decreased by $968,000 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			
	2013		2012	
	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%	$ 21,417	$ 91,940	$ 12,381	$ 18,590
Fuel price decrease 5%	(13,132)	(84,966)	(13,940)	(10,300)

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, 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

December 31, 2012

	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	1.7331	$ 1,183,067	$ 4,131,029	$ 2,560,986	$ 6,827,494	$ 3,634,103
Floating interest rate liabilities	1.5651	3,966,007	13,472,659	27,757,995	33,221,728	3,064,274
Fixed interest rate liabilities	4.2739	1,719,955	354,917	455,626	1,040,599	-
Derivative instruments	-	19,703	7,474	2,910	5,046	-
		$ 6,888,732	$ 17,966,079	$ 30,177,517	$ 41,094,867	$ 6,698,377

January 1, 2012

	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	1.7051	$ 1,169,604	$ 2,614,628	$ 5,110,667	$ 8,366,714	$ 4,936,414
Floating interest rate liabilities	1.5570	3,929,651	14,660,865	17,587,615	45,470,464	5,935,269
Fixed interest rate liabilities	1.6540	186,021	478,923	428,758	1,265,859	222,238
Derivative instruments	-	29,858	35,297	5,778	1,468	-
		$ 5,315,134	$ 17,789,713	$ 23,132,818	$ 55,104,505	$ 11,093,921

Loan commitments

	December 31, 2013	December 31, 2012	January 1, 2012
Disposal unsecured bank loan limit	$ 14,854,000	$ 10,442,000	$ 13,881,000

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	
	2013	2012	2013	2012
Associates	$ 2,313,453	$ 2,425,572	$ 3,001,332	$ 2,993,968
Jointly controlled entities	$ 13,877	$ 13,121	$ 1,278,542	$ 1,224,036
Major stockholder	$ 26,001	$ 38,486	$ 53,014	$ 62,275

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

	December 31, 2013	December 31, 2012	January 1, 2012
Associates	$ 447,148	$ 380,601	$ 278,029
Jointly controlled entities	594	1,117	1,083
Major stockholder	8,476	3,340	3,697
	$ 456,218	$ 385,058	$ 282,809

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

	December 31, 2013	December 31, 2012	January 1, 2012
Associates	$ 985,408	$ 876,764	$ 682,566
Jointly controlled entities	317,284	302,779	275,726
Major stockholder	6,362	5,800	7,303
	$ 1,309,054	$ 1,185,343	$ 965,595

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 this contract. The rental rate was adjusted in August 2010. In 2013 and 2012, the rentals received amounted $1,297,098 thousand and $1,183,607 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 $228,635 thousand in 2013 and $237,688 thousand in 2012, 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 2013 and 2012, the Company had paid rentals of about $53,014 thousand and $62,275 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 2013 and 2012, the Company paid rentals of $213,019 thousand each.

c. Endorsements and guarantees

	December 31, 2013		December 31, 2012		January 1, 2012	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company						
Cal Park	$ 3,400,000	$ 3,071,000	$ 3,400,000	$ 3,237,000	$ 3,400,000	$ 3,320,000
Taiwan Air Cargo Terminal	1,080,000	361,800	1,080,000	-	-	-
Freighter Princess Ltd.	-	-	-	-	29,520	29,520
Freighter Prince Ltd.	285,564	285,564	300,478	300,478	334,243	334,243
Freighter Queen Ltd.	-	-	244,982	244,982	297,216	297,216
Cal Hotel	180,000	19,029	180,000	118,497	180,000	146,379
Cal Asia						
Taikoo Spirit Aerospace Systems (Jinjiang) Composite	16,229	15,323	15,852	15,329	16,524	13,005

The term of making collections and payments for receivables and payables is from 30 days to 2 months, which is consistent with the Company's credit policy.

d. Bonds payable - related parties

Related parties that invested in the first issue of private unsecured bonds in 2012 and 2010 (Note 19) are summarized as follows:

	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

Related Party	December 31, 2012 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
The first issue of private unsecured bonds in 2010		
Taoyuan International Airport Services	300	300,000
Mandarin Airlines	300	300,000
Abacus Distribution Systems (Taiwan)	60	60,000
China Pacific Catering Services	40	40,000
Hwa Hsia	10	10,000

In 2013 and 2012, interest expenses were $8,776 thousand and $28,463 thousand, respectively. As of December 31, 2013 and 2012 the interests payable were $4,195 thousand and $6,649 thousand.

e. Property transactions

To enhance asset use and improve resource sharing within its network, the Company sold the land and building located on the Taichung Port road to Mandarin Airlines for $29,320 thousand in December 2012. The gain on disposal of properties was $126 thousand, which had been collected in full.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2013	2012
Short-term employee benefits	$ 35,415	$ 43,324
Post-employment benefits	4,353	4,069
	$ 39,768	$ 47,393

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 and business transactions:

	December 31, 2013	December 31, 2012	January 1, 2012
Property, plant and equipment	$ 104,982,313	$ 131,682,059	$ 146,284,016
Restricted assets - noncurrent			
US treasury bills	487,649	545,460	660,980
	$ 105,469,962	$ 132,227,519	$ 146,944,996

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

34. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2013, the Company had commitments and contingent liabilities, as follows:

Commitment

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, 2013	December 31, 2012	January 1, 2012
US$ 315,859 thousand	US$237,194 thousand	US$119,197 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, 2013	December 31, 2012
US$ 163,786 thousand	US$26,673 thousand

c. To provide more options to its passengers, the board of directors resolved on December 13, 2013 to have a joint venture with Tiger Airways Singapore Pte. Ltd. to establish a new low-cost carrier (LCC), which will be named Tigerair Taiwan Co., Ltd. ("Tigerair Taiwan"). The paid-in capital of Tigerair Taiwan will be $2 billion. The Company and Mandarin Airlines will acquire 90% of Tigerair Taiwan's shares for NT$1.8 billion. Tigerair Taiwan had already obtained CAA's approval for its establishment and planned to launch its operation before the end of 2014.

Contingent Liabilities

a. The Company has been named as a defendant in the civil class action alleged the fuel surcharges levied in the shipments to and from the United States in violation of Antitrust Laws. The Company has properly joined the defendants' Joint Defense Group. Except duly response to the Court's orders, this Company, together with other Asian airlines defendants, keeps arguing the Plaintiffs' qualification to be "a class" in this civil class action. During late 2013 and early 2014, the litigation turns to be prejudicial to defendants according to the lawyers' observation. After proper assessment, the Company changed its strategy to diminish impact from this litigation.

   This litigation is on-going. After the Company's valuation at the contingent liabilities subject to available information, a proper provision has been recorded in 2013 financial statements. Further information which is expected to prejudice seriously the position of the Company will be disclosed upon material developments in due course.

b. The Company has been named as a defendant, together with other members in Association of Asia Pacific Airlines, by some passengers in the civil class action alleged 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 we have seen any evidence supporting Plaintiffs' allegation so far.

c. Due to fraudulent financial reporting of Far Eastern Air transports Corp. (FAT) during the third quarter of 2005 to the third quarter of 2007, the Securities and Futures Investors Protection Center (SFIPC) raised a civil action in 2009 against FAT's institutional stockholders, directors and supervisors, who were alleged jointly and severally liable for the damages at NT$297,061 thousand. The Company was named as a joint defendant in January 2010.

   The Company entered into a settlement with SFIPC and the allegation against the Company and the directors assigned by it was therefore with drawled on May 28, 2013. The settlement is covered by the directors and officers liabilities insurance subject to US$50,000 deductibles, which does not materially impact on the finance of the Company.

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 (Note 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.

37. FIRST-TIME ADOPTION OF IFRSs

a. Basis of the preparation for financial information under IFRSs

The Company's date of transition to the Regulations was January 1, 2012. The impact of the transition to the Regulations (for 2010 IFRS) on the Company's balance sheets and statements of comprehensive income is stated as follows:

b. Impact on the transition to IFRSs

1) Reconciliation of the balance sheet as of January 1, 2012

ROC GAAP			Impact of Transition to IFRSs		
Item	Amount	Difference	Amount	Item	Note
Current assets					
Cash and cash equivalents	$ 8,947,397	$ -	$ 8,947,397	Cash and cash equivalents	
Other receivable	510,901	(5,466)	505,435	Other receivable	1)
Inventories, net	8,587,292	(2,073,571)	6,513,721	Inventories	1)
Deferred tax assets - current	152,994	(152,994)	-	-	13)
Others	14,723,919	5,916	14,729,835	Others	
Total current assets	32,922,503	(2,220,115)	30,696,388	Total current assets	
Long-term investments					
Investments accounted for by the equity method	9,255,182	(679,182)	8,576,000	Investments accounted for by the equity method	
Others	758,432	-	758,432	Others	
Total long-term investments	10,013,614	(679,182)	9,334,432	Total long-term investments	
Net properties	140,532,375	23,223,022	163,755,397	Property, plant and equipment	1), 2), 3), 4), 10), 11)
-	-	1,468,433	1,468,433	Investment properties	4)
Intangible assets	503,997	(118,271)	385,726	Intangible assets	
Other assets					
Deposits	10,521,794	(9,225,000)	1,296,794	Deposits	2)
-	-	5,831,156	5,831,156	Prepayments - noncurrent	3)
Deferred tax assets - noncurrent	6,695,423	1,725,049	8,420,472	Deferred tax assets	13)
Others	1,499,890	(838,910)	660,980	Others	4)
Total other assets	18,717,107	2,507,705	16,209,402	Total other assets	
Total assets	$ 202,689,596	$ 11,536,206	$ 221,849,778	Total assets	
Current liabilities					
Accrued expenses	$ 12,253,634	$ 41,333	$ 12,294,967	Other payable	2), 5), 12)
Advance ticket sales	8,771,281	471,017	9,242,298	Deferred revenue - current	12)
Capital lease obligations - current portion	1,185,639	2,559,400	3,745,039	Capital lease obligations - current portion	2)
Other current liabilities	33,571,378	-	33,571,378	Other current liabilities	
Total current liabilities	55,781,932	3,071,751	58,853,683	Total current liabilities	
Long-term liabilities					
Capital lease obligations - noncurrent	1,135,067	17,002,000	18,137,067	Capital lease obligations - noncurrent	2)
Others	85,960,935	-	85,960,935	Others	
Total long-term liabilities	87,096,002	17,002,000	104,098,002	Total long-term liabilities	
Other liabilities					
Accrued pension costs	6,378,717	2,341,065	8,719,782	Accrued pension costs	6)
-	-	1,379,620	1,379,620	Provisions - noncurrent	7)
Deferred profits on sale - leaseback	5,312,853	(5,211,895)	100,958	Deferred profits on sale-leaseback	2)
Deferred tax liabilities - noncurrent	-	160,021	160,021	Deferred tax liabilities	13)
-	-	1,711,677	1,711,677	Deferred revenue - noncurrent	12)
Others	1,061,014	-	1,061,014	Others	
Total other liabilities	12,752,584	380,488	13,133,072	Total other liabilities	
Total liabilities	155,630,518	20,454,239	176,084,757	Total liabilities	
Equity					
Capital stock	46,316,224	-	46,316,224	Capital stock	
Capital surplus	422,101	-	422,101	Capital surplus	
Retained earnings	4,189,380	(5,169,322)	(979,942)	Retained earnings	9)
Other equity					
Cumulative translation adjustments	(1,598,197)	1,598,197	-	Exchange difference on translating foreign operations	8), 10), 13)
Net loss not recognized as pension cost	(2,325,184)	2,325,184	-	-	
Unrealized valuation loss on financial instruments	50,010	-	50,010	Unrealized valuation loss on financial instruments	
Unrealized revaluation increment	41,298	(41,298)	-	-	11)
Company shares held by subsidiaries reclassified to treasury stock	(36,554)	(6,818)	(43,372)	Company shares held by subsidiaries reclassified to treasury stock	
Total other equity	(3,868,627)	3,875,265	6,638	Total other equity	
Total equity	47,059,078	(1,294,057)	45,765,021	Total equity	
Total liabilities and equity	$ 202,689,596	$ 19,160,182	$ 221,849,778	Total liabilities and equity	

2) Reconciliation of the balance sheet as of December 31, 2012

ROC GAAP			Impact of Transition to IFRSs		
Item	**Amount**	**Difference**	**Amount**	**Item**	**Note**
Current assets					
Cash and cash equivalents	$ 9,011,364	$ -	$ 9,011,364	Cash and cash equivalents	
Other receivable	391,992	(5,406)	386,586	Other receivable	1)
Inventories, net	8,521,792	(1,813,456)	6,708,336	Inventories	1)
Deferred tax assets - current	212,169	(212,169)	-	-	13)
Others	10,179,987	5,380	10,185,367	Others	
Total current assets	28,317,304	(2,025,651)	26,291,653	Total current assets	
Long-term investments					
Investments accounted for by the equity method	9,310,864	(677,601)	8,633,263	Investments accounted for by the equity method	
Others	385,785	(14,418)	371,367	Others	
Total long-term investments	9,696,649	(692,019)	9,004,630	Total long-term investments	
Net properties	133,555,450	18,122,545	151,677,995	Property, plant and equipment	1), 2), 3), 4), 10), 11)
-	-	1,468,433	1,468,433	Investment properties	4)
Intangible assets	467,358	(59,136)	408,222	Intangible assets	
Other assets					
Deposits	10,196,933	(9,225,000)	971,933	Deposits	2)
-	-	9,793,436	9,793,436	Prepayments - noncurrent	3)
Deferred tax assets - noncurrent	6,834,273	2,808,220	9,642,493	Deferred tax assets	13)
Others	1,256,847	(696,968)	559,879	Others	4)
Total other assets	18,288,053	2,679,688	20,967,741	Total other assets	
Total assets	$ 190,324,814	$ (19,493,860)	$ 209,818,674	Total assets	
Current liabilities					
Accrued expenses	$ 9,597,896	$ 108,436	$ 9,706,332	Other payable	2), 5), 12)
Advance ticket sales	7,168,399	669,301	7,837,700	Deferred revenue - current	12)
Capital lease obligations - current portion	840,208	4,439,400	5,279,608	Capital lease obligations - current portion	2)
Other current liabilities	27,977,101	-	27,977,101	Other current liabilities	
Total current liabilities	45,583,604	5,217,137	50,800,740	Total current liabilities	
Long-term liabilities					
Capital lease obligations - noncurrent	248,664	12,562,600	12,811,264	Capital lease obligations - noncurrent	2)
Others	79,965,821	-	79,965,821	Others	
Total long-term liabilities	80,214,485	12,562,600	92,777,086	Total long-term liabilities	
Other liabilities					
Accrued pension costs	6,900,732	2,067,989	8,968,721	Accrued pension costs	16)
-	-	1,825,382	1,825,382	Provisions - noncurrent	7)
Deferred profits on sale - leaseback	4,735,675	(4,649,229)	86,446	Deferred profits on sale - leaseback	2)
Deferred tax liabilities - noncurrent	-	1,183,790	1,183,790	Deferred tax liabilities	13)
-	-	1,967,650	1,967,650	Deferred revenue - noncurrent	12)
Others	749,087	-	749,087	Others	
Total other liabilities	12,385,494	(2,395,582)	14,781,076	Total other liabilities	
Total liabilities	138,183,583	20,175,318	158,358,902	Total liabilities	
Equity					
Capital stock	52,000,000	-	52,000,000	Capital stock	
Capital surplus	1,405,394	-	1,405,394	Capital surplus	9)
Retained earnings	4,248,184	(6,089,872)	(1,841,688)	Retained earnings	
Other equity					
Cumulative translation adjustments	(2,599,694)	2,539,314	(60,380)	Exchange difference on translating foreign operations	8), 10), 13)
Net loss not recognized as pension cost	(2,917,215)	2,917,215	-	-	
Unrealized valuation loss on financial instruments	(182)	-	(182)	Unrealized valuation loss on financial instruments	
Unrealized revaluation increment	41,298	(41,298)	-	-	11)
Company shares held by subsidiaries reclassified to treasury stock	(36,554)	(6,818)	(43,372)	Company shares held by subsidiaries reclassified to treasury stock	
Total other equity	(5,512,347)	5,408,413	(103,934)	Total other equity	
Total equity	52,141,231	(681,459)	51,459,772	Total equity	
Total liabilities and equity	$ 190,324,814	$ 18,812,400	$ 209,818,674	Total liabilities and equity	

3) Reconciliation of the statement of comprehensive income for the year ended December 31, 2012

ROC GAAP			Impact of Transition to IFRSs		
Item	**Amount**	**Difference**	**Amount**	**Item**	**Note**
Operating revenue	$ 132,608,831	$ (473,363)	$ 132,135,468	Operating revenue	1), 12)
Operating cost	(123,426,454)	(607,091)	(124,033,545)	Operating cost	1), 2), 5), 6), 7)
Gross profits	9,182,377	(1,080,454)	8,101,923	Gross profits	
Operating expenses	(8,839,287)	(39,226)	(8,878,513)	Operating expenses	5), 6), 12)
Operating profits	343,900	(1,120,490)	(776,590)	Operating loss	
Nonoperating income and expenses	(207,747)	525,574	317,827	Nonoperating income (expenses)	1), 2), 7), 8)
Income before income tax	135,343	(594,106)	(458,763)	Income before income tax	
Income tax expense	(76,539)	116,946	(40,407)	Income tax benefit	13
Net income	$ 58,804	$ (477,160)	(418,356)	Profit before tax	
			(70,014)	Exchange differences on translating foreign operations	
			(33,393)	Unrealized gain (loss) on available-for-sale financial assets	
			(22,133)	Cash flow hedges	
			(78,973)	Share of other comprehensive income of associates and joint ventures	
			(447,297)	Actuarial gain and loss arising from defined benefit plans	
			97,848	Income tax relating to components of other comprehensive income	
			(553,962)	Other comprehensive income for the year	
			$ (972,318)	Total comprehensive income for the period	

c. Explanations of significant reconciling items in the transition to IFRSs

1) Significant component inspection and overhaul cost

a) Based on IAS 16 “Property, Plant and Equipment,” since the Company uses the cost method to recognize property and equipment (P&E), it should depreciate separately each part of flight equipment with a cost that is significant in relation to the total cost of the equipment.

b) Based on IAS 16, for parts of flight equipment that require regular major inspections, their cost is recognized in the carrying amount of such an item when that cost is incurred if the recognition criteria (probability of future economic benefits and cost measurement reliability) are met and derecognizes the carrying amount of previous replacement cost. If previous replacement cost is not recognized as property, plant and equipment, the cost of current inspection will be used as an indication of what the cost of the existing inspection component was. The Company can use this cost in derecognizing the asset.

c) ROC GAAP does not indicate the accounting for spare parts and maintenance equipment. In practice, the Company considered these items as inventory and recognized gain and loss after disposal. Under IFRSs, major aviation spare parts and maintenance equipment with useful lives of over one year are considered property, plant, equipment and are depreciable over their useful lives.

On the transition to IFRSs, the Company made certain adjustments. As of January 1, 2012, the Company decreased inventory by $2,157,462 thousand; increased property, plant and equipment by $313,724 thousand; increased long-term prepayment by $124,683 thousand; decreased other assets by $247,750 thousand; and increased other assets - current by $450 thousand. As of December 31, 2012, the Company decreased inventory by $1,943,208 thousand; decreased property, plant and equipment by $456,940 thousand; decreased other assets related to maintenance by $29,445 thousand; and increased long-term prepayment by $624,906 thousand. For the year ended December 31, 2012, the Company decreased revenue by $19,106 thousand and operating cost by $452,153 thousand, and increased nonoperating income and expenses by $271,378 thousand.

2) Lease

Under ROC GAAP, aircraft used by the Company under a sale-leaseback contract do not meet the capital lease criteria. Thus, the aircraft were accounted for as being under an operating lease. Under IAS 17 “Leases,” indicates that whether a lease is a finance lease or an operating lease depends on the substance rather than the form of the transaction. Thus, the sale-leaseback contracts on the aircraft and engines used by the Company were reclassified as a finance lease or operating lease depending on the substance of the transaction.

On the transition to IFRSs, the Company made certain adjustments. As of January 1, 2012 and December 31, 2012, the Company increased property, plant and equipment by $23,206,351 thousand and $20,787,426 thousand, respectively; decreased deposits - out by $9,225,000 thousand on both dates; decreased accrued rent payable by $396,469 thousand and $396,901 thousand, respectively; increased lease obligations by $19,561,400 thousand and $17,002,000 thousand, respectively; and decreased deferred profits on sale-leaseback by $5,211,895 thousand and $4,649,229 thousand, respectively. For the year ended December 31, 2012, the Company increased the depreciation by $2,420,690 thousand; decreased the amortization of deferred profits on sale-leaseback by $562,667 thousand; decreased operating cost by $2,844,638 thousand; and increased finance cost by $283,041 thousand.

3) Prepayment for equipment

Under ROC GAAP, prepayment for equipment is accounted for as a fixed asset.

Under IFRSs, prepayment should be classified as long-term prepayment under noncurrent assets. As of January 1, 2012 and December 31, 2012, the Company reclassified the prepayment for equipment as a long-term prepayment by $5,115,314 thousand and $8,706,035 thousand, respectively.

4) Investment properties

Under ROC GAAP, properties held to earn rentals are classified as fixed assets. Under IFRS, properties held for earning rentals or for capital appreciation or for both purposes should be classified as investment properties. As of January 1, 2012 and December 31, 2012, the Company reclassified the land held to earn rentals from fixed asset to investment properties at its carrying amount of $1,498,433 thousand.

5) Employee benefits - accumulating compensated absences

Under ROC GAAP, accounting for accumulating compensated absences is not classified clearly. In practice, it is accounted for as expense when the salaries are paid by entity.

Under IFRSs, the expected cost of accumulating compensated absences is recognized as employees render services that increase their entitlement to these compensated absences.

As of January 1, 2012 and December 31, 2012, the Company increased other payables by $505,629 thousand and $507,698 thousand, respectively. For the year ended December 31, 2012, the Company increased salary and wages by $2,069 thousand.

6) Employee benefits - actuarial gain or loss for defined pension plan

Under ROC GAAP, SFAS 18 “Accounting for Pensions” indicates that unrecognized transitional net transition obligation is amortized on a straight-line basis over the average remaining service period and included in net pension cost. On transition to IFRSs, the transition policies of IAS 19 “Employee Benefits” no longer apply; thus the effects of the unrecognized transitional net obligations should be fully recognized at once and the retained earnings should be adjusted accordingly.

Under ROC GAAP, actuarial gain or loss are recognized under the corridor approach and amortized over the average remaining service years of employees. Under IAS 19, all actuarial gains or losses recognized in other comprehensive income should be recognized immediately under retained earnings in the statement of changes in equity. These actuarial gains and losses should not be reclassified in the subsequent period.

As of January 1, 2012 and December 31, 2012, the Company increased accrued pension costs by $2,341,065 thousand and $2,067,989 thousand, respectively; decreased deferred pension cost by $118,271 thousand and $59,136 thousand, respectively; decreased net loss unrecognized as pension cost by $2,325,184 thousand and $2,917,215 thousand, respectively; and increased investments accounted for by the equity method by $133,899 thousand and $179,255 thousand, respectively. For the year ended December 31, 2012, the Company decreased pension cost by $338,945 thousand, and retained earnings by $443,391 thousand, because of actuarial gain or loss on the defined pension plan.

7) Provisions - noncurrent

Under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets,” the Company should make an assessment on whether there is an existing obligation on its return of an aircraft to the lessor after a lease term expires.

As of January 1, 2012 and December 31, 2012, the Company increased provisions - noncurrent by $1,379,620 thousand and $1,825,382 thousand, respectively; for the year ended December 31, 2012, the Company increased operating cost by $445,762 thousand.

8) Cumulative translation adjustments - fleet

Under a regulation by the Securities and Futures Bureau (SFB), the carrying amount of an aircraft acquired and the related U.S. dollar-denominated obligation incurred for the acquisition are accounted for as an investment in a foreign operating entity if the Company's use of the aircraft results in generating revenues and incurring expenses mainly in U.S. dollars. On the balance sheet date, the carrying amount of the aircraft and the related liability are restated at balance sheet date rates. The difference is recognized in stockholders' equity as a translation adjustment.

On transition to IFRSs, the above accounting treatment will no longer be used because there is no similar rule in IFRSs.

As of January 1, 2012 and December 31, 2012 the Company increased property, plant and equipment by $6,286,693 thousand and $8,468,893 thousand, respectively; and increased translation adjustment by $1,976,066 thousand and $3,107,016 thousand respectively; for the year ended December 31, 2012, the Company increased gains on foreign currency exchange by $1,051,250 thousand.

9) Adjustments to the operating of retained earnings and equity on January 1, 2012

	January 1, 2012
Total equity under ROC GAAP	$ 47,059,078
Adjustments to retained earnings	
Employee benefits - defined benefit actuarial gains and losses	(5,127,274)
Customer loyalty program	(2,114,868)
Provisions - noncurrent	(1,800,104)
Property, plant and equipment	(1,984,858)
Employee benefits - short-term cumulative paid leave	(539,188)
Effect on affiliate's adoption of IFRSs	(92,921)
Cumulative translation adjustments - aircraft	4,310,627
Other	272,581
Income tax effect associated with adjustments to opening retained earnings	1,906,682
Adjustments to retained earnings	(5,169,323)
Adjustments to other equity item	3,875,265
Total equity under IFRS	$ 45,765,020

10) Cumulative translation adjustments

The Company elected to use an exemption under IFRS 1 "First-time Adoption of International Financial Reporting Standards" of resetting the cumulative translation difference of $50,529 thousand to zero on the transition to IFRSs and thus adjusted retained earnings as of January 1, 2012; because of the above exemptions and the change of the functional currency, the cumulative translation adjustments decreased by $47,603 thousand.

11) Revaluation increments

Under IFRS 1, the Company elected to use the revaluation increments under ROC GAAP to some of its plants as deemed cost on the IFRS transition date, and reclassified unrealized revaluation increments to retained earnings.

As of January 1, 2012 and December 31, 2012, the amount reclassified from unrealized revaluation increment to plants and buildings of the Company was $41,298 thousand, and the amount reclassified from unrealized revaluation increments to retained earnings was $41,298 thousand.

12) Customer loyalty program

The accounting treatment of reward points given to customers is not specified in ROC GAAP; thus, reward is recognized as expense using the incremental cost method. Under IFRIC 13 "Customer Loyalty Programmes," loyalty award credits should be accounted for as a separate component of a sales transaction. The Company should allocate some of the proceeds of a sale to the award credits and recognize this portion of the proceeds as deferred revenue. The Company should recognize the deferred revenue as revenue only when it has fulfilled its obligations.

As of January 1, 2012 and December 31, 2012, the Company increased deferred revenue - current by $471,018 thousand and $669,302 thousand, respectively; increased deferred revenue - noncurrent by $1,711,677 thousand and $1,967,650 thousand, respectively; decreased accrued expense - operating by $67,827 thousand and $2,361 thousand, respectively; decreased revenue by $454,257 thousand; and increased operating expense by $65,466 thousand.

13) Income tax

Under ROC GAAP, entities are required to provide a valuation allowance for deferred tax assets if it is more likely than not that these assets will be realized. Under IFRSs, deferred income tax assets are recognized only when it is probable that there will be taxable profits against which the deferred tax assets can be used. Thus, a valuation allowance account is not needed.

Under ROC GAAP, deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the classification of the related assets and liabilities for financial reporting. A deferred tax asset or liability that cannot be related to an asset or liability for financial reporting is classified as current or noncurrent on the basis of its realization or reversal date. Under IFRSs, deferred income tax asset and liability is always classified as noncurrent. Moreover, income tax asset and liability only can be presented as offsetting amount under certain conditions.

IAS 12 "Income Tax" requires the adjustment of income tax assets and liabilities related to the adjustment of retained earnings. As of January 1, 2012 and December 31, 2012, deferred income tax assets - current decreased by $152,994 thousand and 212,169 thousand; deferred income tax assets - noncurrent increased by $1,725,049 thousand and $2,808,220 thousand, respectively; deferred income tax liabilities - noncurrent increased by $160,021 thousand and $1,183,790 thousand, respectively; and cumulative translation adjustments decreased by $327,341 thousand and $520,100 thousand, respectively. For the year ended December 31, 2012, income tax expense decreased by $116,946 thousand, and the effect on retained earnings due to defined benefit actuarial gains and losses decreased by $76,041 thousand.

14) Presentation of the stand-alone comprehensive income statement

After adopting IFRSs, stand-alone comprehensive income statement contains current year income and other comprehensive income. The Company reclassified some of accounts for the presentation under IFRSs.

d. Under Legal Interpretation No. 1010012865 issued by the Financial Supervisory Commission 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, but if 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. This special reserve may be reversed in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. On the date of transition to IFRSs, the Company's retained earnings decreased; thus, the Company did not any appropriate special reserve.

e. The Company has prepared the above assessment in compliance with (a) the 2010 version of the IFRSs translated by the Accounting Research and Development Foundation and endorsed by the Financial Supervisory Commission (FSC) and (b) the amended Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by the FSC on December 22, 2011. However, IASB has issued new, amended and revised standards and interpretations. Hence, those assessment mentioned above may change as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from this assessment.

f. Explanation of material adjustments to the statement of cash flows.

   Under ROC GAAP, in the statement of cash flows prepared using the indirect method, interest paid and received and dividends received are classified as operating activities. In addition, interest and dividends received are not required to be disclosed separately. However, based on IAS 7 "Statement of Cash Flows," interest and dividends received should be disclosed separately and classified under operating activities.

   Except for the above difference, there are no other significant differences between ROC GAAP and IFRSs in the statement of cash flows.

TABLE 1

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2013
(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	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	$ 10,161,293	$ 3,400,000	$ 3,400,000	$ -	6.69	$ 25,403,232	Y	-	-
		Taiwan Air Cargo Terminal	54% subsidiary	10,161,293	1,080,000	1,080,000	-	2.13	25,403,232	Y	-	-
		Freighter Prince Ltd.	100% subsidiary	10,161,293	309,474	285,564	285,564	0.56	25,403,232	Y	-	-
		Freighter Queen Ltd.	100% subsidiary	10,161,293	203,295	-	-	-	25,403,232	Y	-	-
		Cal Hotel	100% subsidiary	10,161,293	180,000	180,000	-	0.35	25,403,232	Y	-	-
1	Cal-Asia Investment	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	255,063	16,326	16,229	-	1.27	637,657	-	-	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.

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2013
(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, 2013				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines (the "Company")	Stock							
	France Telecom	-	Available-for-sale - current	195,587	$ 72,440	-	$ 72,440	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets carried at cost - noncurrent	1,359,368	297,946	13.59	233,454	Notes 1 and 4
	Abacus International Holdings Ltd. - unlisted preferred stock	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Notes 1 and 4
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	16,749	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,023	15.00	34,577	Note 4
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	592,500	5,925	6.22	1,248	Note 3
Mandarin Airlines	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	22,717	-	22,717	-
	France Telecom	-	Available-for-sale financial asset - current	8,274	3,064	-	3,064	-
	Bond							
	First Issue of Private Unsecured Bonds in 2012, China Airlines	Parent company	Bond investments with no active market - noncurrent	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 - noncurrent	100	100,000	-	100,000	-
Cal-Asia Investment	Stock							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	73,665	5.83	37,952	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	21,378	5.45	7,549	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	3,276	-	3,276	-
	Eastspring Inv Well Pool Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,941,566	39,091	-	39,091	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,368,105	31,287	-	31,287	-
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,910,773	43,103	-	43,103	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2013				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Yuanta De-Bao Money Market Fund	-	Financial assets at fair value through profit or loss - current	558,151	$ 6,557	-	$ 6,557	
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,100,962	62,412	-	62,412	
	Bond							
	First Issue of Private Unsecured Bonds in 2012 - China Airlines	Parent company	Bond investments with no active market - noncurrent	60	60,000	-	60,000	-
Taiwan Airport Services	Stock							
	TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,265,182	28,767	0.40	28,767	-
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	1,448,171	2,065	5.30	6,546	-
Hwa Hsia	Stock							
	China Airlines	Parent company	Available-for-sale financial asset - current	814,152	8,915	-	8,915	-
	Beneficial certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	506,592	6,693	-	6,693	-

Note 1: The subsidiary’s net asset value was $233,454 thousand, which included common stock and preferred stock as of and for the year ended December 31, 2013.

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 and for the year ended December 31, 2013 because the audited financial statements were not prepared on time.

Note 4: The net asset value was calculated using the investee's audited financial statements as of and for the six months ended June 30, 2013 because the audited financial statements were not prepared on time.

(Concluded)

TABLE 3

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2013
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition (Note)		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
China Airlines	<u>Beneficial certificates</u>													
	UPAMC James Bond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	12,332,965.40	$ 200,000	23,393,785.19	$ 380,000	35,726,750.59	$ 580,770	$ 580,000	$ 770	-	$ -
	Union Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	15,603,545.13	200,000	35,022,892.78	450,000	50,626,437.91	650,738	650,000	738	-	-
	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,022,256.04	250,000	19,022,256.04	250,224	250,000	224	-	-
	Capital Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	44,624,047.60	700,000	44,624,047.60	700,604	700,000	604	-	-
	Eastspring Inv Well Poll Money Market	Financial assets at fair value through profit or loss - current	-	-	-	-	66,568,415.70	880,000	66,568,415.70	880,760	880,000	760	-	-
	<u>Stock</u>													
	China Life Insurance Co., Ltd.	Financial assets at fair value through profit or loss - current	-	-	16,424,127	430,312	-	-	16,424,127	466,052	430,312	35,740	-	-

Note: Including valuation gain and loss on financial assets at the end of the period.

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, 2013
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 268,440	0.22	30 days	$ -	-	$ (41,332)	(1.37)	-
	Cal Park	Subsidiary	Purchase	213,019	0.17	2 months	-	-	(159,764)	(5.28)	-
	Mandarin Airlines	Subsidiary	Sale	(2,043,020)	(1.55)	2 months	-	-	422,956	5.04	-
			Purchase	303,434	0.25	2 months	-	-	(286,863)	(9.48)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,197,513	0.97	60 days	-	-	(303,544)	(10.03)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	996,881	0.81	40 days	-	-	(307,188)	(10.15)	-
	China Aircraft Services	Equity-method investee	Purchase	206,347	0.17	30 days	-	-	(36,048)	(1.19)	-
	Taiwan Airport Services	Subsidiary	Purchase	376,613	0.31	40 days	-	-	(66,572)	(2.20)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	129,058	0.10	40 days	-	-	(20,110)	(0.66)	-
	Hwa Hsia	Subsidiary	Purchase	272,415	0.22	2 months	-	-	(50,658)	(1.67)	-
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(268,440)	(20.49)	2 months	-	-	41,332	46.59	-
Cal Park	China Airlines	Parent company	Sale	(213,019)	(72.16)	2 months	-	-	159,764	88.08	-
Mandarin Airlines	China Airlines	Parent company	Purchase	2,043,020	28.33	2 months	-	-	(422,956)	(41.66)	-
			Sale	(303,434)	(4.09)	2 months	-	-	286,863	68.40	-
China Pacific Catering Services	China Airlines	Parent company	Sale	(1,197,513)	(57.70)	60 days	-	-	303,544	71.12	-
Taoyuan International Airport Service	China Airlines	Parent company	Sale	(996,881)	(39.94)	30 days	-	-	307,188	69.33	-
China Aircraft Services	China Airlines	Investor using equity method	Sale	(206,347)	(13.28)	30 days	-	-	36,048	14.06	-
Taiwan Airport Services	China Airlines	Parent company	Sale	(376,613)	(42.08)	45 days	-	-	66,572	54.36	-
Kaohsiung Catering Services	China Airlines	Investor using equity method	Sale	(129,058)	(9.14)	40 days	-	-	20,110	10.39	-
Hwa Hsia	China Airlines	Parent company	Sale	(272,415)	(76.60)	2 months	-	-	50,658	88.32	-

TABLE 5

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, 2013
(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	$ 422,956	6.23	$ -	-	$ 226,108	$ -
Mandarin Airlines	China Airlines	Parent company	286,863	1.17	-	-	209,562	-
Taoyuan International Airport Service	China Airlines	Parent company	307,188	3.51	-	-	306,202	-
China Pacific Catering Services	China Airlines	Parent company	303,544	4.03	-	-	197,045	-
Cal Park	China Airlines	Parent company	159,765	1.33	-	-	55,918	-

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, 2013
(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, 2013			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2013	December 31, 2012	Shares	Percentage of Ownership	Carrying Value			
China Airlines, Ltd.	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	$ 1,350,000	$ 1,350,000	135,000,000	54.00	$ 1,355,358	$ 416,581	$ 224,954	-
	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	1,500,000	1,500,000	150,000,000	100.00	1,479,619	9,699	9,699	-
	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	1,056,433	15,399	15,399	Note 2
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,102,073	(93,296)	(54,821)	Note 1
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	604,510	190,307	93,250	-
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	685,797	311,347	158,787	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	407,725	140,915	28,183	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 47,016	US$ 46,516	47,016,200	100.00	1,275,313	763,477	763,477	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	420,209	161,895	152,054	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	251,295	86,166	40,787	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	225,221	132,207	47,306	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	150,654	150,654	13,293,000	28.48	192,175	96,889	27,562	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322	77,322	7,732,200	24.50	244,486	411,034	95,711	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants, and health clubs	137,500	137,500	13,750,000	55.00	163,628	51,823	28,503	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000	50,000	50,000	100.00	78,810	29,929	29,929	Note 1
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	210,275	16,641	16,641	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	30,986	3,527	1,799	-
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	36,353	13,588	13,588	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,471	2,689	672	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	30	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	30	-	-	-
	Freighter Queen Ltd.	Cayman Islands	Aircraft lease	US$ 1	US$ 1	1,000	100.00	30	-	-	-
Cal-Asia Investment	Xiamen International Airport Air Cargo Terminal	Xiamen International Airport	Forwarding and storage of air cargo	US$ 4,118	US$ 4,118	-	14.00	260,142	133,149	18,652	Note 3
	Xiamen International Airport Air Cargo Storage	Xiamen International Airport	Forwarding and storage of air cargo	US$ 1,947	US$ 1,947	-	14.00	107,684	71,138	9,964	Note 3
	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK$ 3,329	HK$ 3,329	1,050,000	35.00	34,213	20,239	7,093	Note 4
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	367,259	22,370	22,370	Note 3
Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	Building security and maintenance services	10,000	10,000	1,000,000	100.00	19,970	8,212	8,212	-
Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Terminal	Xiamen International Airport	Forwarding and storage of air cargo	US$ 3,950	US$ 3,950	-	14.00	258,763	133,149	18,641	Note 3
	Xiamen International Airport Air Cargo Storage	Xiamen International Airport	Forwarding and storage of air cargo	US$ 1,927	US$ 1,927	-	14.00	107,922	71,138	9,959	Note 3

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

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

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

Note 4: The investment income(loss) was calculated using the investee’s unaudited financial statements, because the the audited financial statement were not prepared on time.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2013
(In Thousands of New Taiwan 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, 2013	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2013	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2013	Accumulated Inward Remittance of Earnings as of December 31, 2013
					Outflow	Inflow						
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	$ 1,105,268 (RMB 224,480)	Indirect (Note 1)	$ 122,555 (US$ 4,118)	$ -	$ -	$ 122,555 (US$ 4,118)	$ (133,149)	14.00	$ 18,652 (RMB 3,868)	$ 260,142 (RMB 52,835)	$ 56,018 (US$ 1,888) (Note 4)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	689,312 (RMB 14,000)	Indirect (Note 1)	57,960 (US$ 1,947)	-	-	57,960 (US$ 1,947)	71,138	14.00	9,964 (RMB 2,067)	107,684 (RMB 21,871)	
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,097,917 (US$ 36,890)	Indirect (Note 1)	64,024 (US$ 2,151)	-	-	64,024 (US$ 2,151)	(153,497)	5.83	-	73,665 (RMB 14,961)	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	407,100 (RMB 82,682)	Indirect (Note 1)	18,929 (US$ 636)	-	-	18,929 (US$ 636)	(33,391)	5.45	-	21,378 (RMB 4,342)	
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,461,841 (RMB 500,000)	Indirect (Notes 1 and 9)	1,154,648 (US$ 38,796)	-	-	1,154,648 (US$ 38,796)	-	-	-		
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	92,262 (US$ 3,100)	Indirect (Note 2)	7,381 (US$ 248)	-	-	7,381 (US$ 248)	-	8.00	-	7,381 (US$ 248)	
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	29,762 (US$ 1,000)	Indirect (Note 3)	5,104 (US$ 172)	-	-	5,104 (US$ 172)	-	17.15	-	5,104 (US$ 172)	

Accumulated Investment in Mainland China as of December 31, 2013	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
$1,430,601 (US$48,068)	$1,436,535 (Note 5)	$31,734,216 (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, 2013	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2013	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2013	Accumulated Repatriation of Investment Income as of December 31, 2013
					Outward	Inward						
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	$ 1,105,268 (RMB 224,480)	Indirect (Note 7)	$ 117,566 (US$ 3,950)	$ -	$ -	$ 117,566 (US$ 3,950)	$ 133,149	14.00	$ 18,641 (RMB 3,870)	$ 258,763 (RMB 52,555)	$ 74,590 (US$ 2,506)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	68,932 (RMB 14,000)	Indirect (Note 7)	57,344 (US$ 1,927)	-	-	57,344 (US$ 1,927)	71,138	14.00	9,956 (RMB 2,068)	107,922 (RMB 21,919)	12,654 (US$ 425)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2013	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$174,910 (US$5,877)	$174,910 (US$5,877)	$320,068(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 2013 amounted to US$1,887,816.

Note 5: The amount comprised US$47,035,573 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.

(Concluded)