

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2019 and 2018 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of China Airlines, Ltd. and its subsidiaries (the "Group") as of June 30, 2019 and 2018, the related consolidated statements of comprehensive income for the three-month periods ended June 30, 2019 and 2018 and for the six-month periods ended June 30, 2019 and 2018, the consolidated statements of changes in equity and cash flows for the six-month periods then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

We did not review the financial statements of some subsidiaries included in the consolidated financial statements of the Group, but such statements were reviewed by other auditors. Our conclusion, insofar as it relates to the amounts included in the consolidated financial statements for these subsidiaries, is based solely on the report of other auditors. The total assets of these subsidiaries were NT\$13,872,020 thousand and NT\$5,347,586 thousand, which constituted 4.73% and 2.33% of the consolidated total assets as of June 30, 2019 and 2018, and the total revenue was NT\$4,905,056 thousand and NT\$4,426,054 thousand, which constituted 5.89% and 5.46% of the consolidated total revenues for the six-month periods ended June 30, 2019 and 2018.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standard No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Notes 13 and 14 to the consolidated financial statements, the financial statements of some non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph and some investments accounted for using the equity method were not reviewed. As of June 30, 2019 and 2018, the combined total assets of these non-significant subsidiaries were NT\$23,284,052 thousand and NT\$17,281,673 thousand, respectively, representing 7.94% and

7.53%, respectively, of the consolidated total assets, and combined total liabilities of these non-significant subsidiaries were NT\$12,332,446 thousand and NT\$6,607,113 thousand, respectively, representing 5.24% and 3.88%, respectively, of the consolidated total liabilities; for the three-month periods and for the six-month periods ended June 30, 2019 and 2018, the amounts of the combined comprehensive income of these non-significant subsidiaries were NT\$332,113 thousand, NT\$379,330 thousand, NT\$557,817 thousand and NT\$547,921 thousand, respectively, representing (67.52%), 93.69%, (79.31%) and 103.59%, respectively, of the consolidated total comprehensive income. As of June 30, 2019 and 2018, the aforementioned investments accounted for using the equity method were NT\$2,367,567 thousand and NT\$2,349,376 thousand, respectively; and for the three-month periods ended and for the six-month periods ended June 30, 2019 and 2018, the amounts of the Group's share of the profit of such investments accounted for using the equity method were NT\$87,895 thousand, NT\$82,104 thousand, NT\$157,799 thousand and NT\$163,819 thousand, respectively.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and investments accounted for by using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2019 and 2018, its consolidated financial performance for the three-month periods ended June 30, 2019 and 2018 and for the six-month periods ended June 30, 2019 and 2018, and its consolidated cash flows for the six-month periods then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Huang, Jui Chan and Cheng, Shiuh Ran.

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 7, 2019

Notice to Readers

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2019 (Reviewed)		December 31, 2018 (Audited)		June 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6 and 33)	\$ 23,348,904	8	\$ 24,937,537	11	\$ 24,862,418	11
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 33)	279,701	-	206,001	-	456,278	-
Financial assets at amortized cost (Notes 4, 9 and 33)	1,339,154	1	3,856,660	2	812,643	-
Financial assets for hedging - current (Notes 4 and 33)	38,572	-	32,906	-	56,393	-
Notes and accounts receivable, net (Notes 4, 5, 10 and 33)	9,865,930	3	10,038,528	4	9,197,482	4
Notes and accounts receivable - related parties (Notes 33 and 34)	10,338	-	9,043	-	8,414	-
Other receivables (Note 33)	1,229,387	-	879,191	-	829,734	1
Current tax assets (Notes 4 and 28)	37,123	-	18,948	-	29,296	-
Inventories, net (Notes 4 and 11)	8,220,667	3	8,654,710	4	8,896,609	4
Noncurrent assets held for sale (Notes 4 and 12)	-	-	46,154	-	110,778	-
Other assets - current (Notes 6 and 18)	2,709,373	1	4,147,882	2	4,553,949	2
Total current assets	47,079,149	16	52,827,560	23	49,813,994	22
NONCURRENT ASSETS						
Financial assets at fair value through other comprehensive income - noncurrent (Note 4, 8 and 33)	130,606	-	132,191	-	149,980	-
Investments accounted for using the equity method (Notes 4 and 14)	2,367,567	1	2,200,149	1	2,349,376	1
Property, plant and equipment (Notes 4, 5, 15 and 35)	158,181,473	54	163,107,718	71	162,229,320	71
Right-of-use assets (Notes 4, 21 and 35)	72,742,812	25	-	-	-	-
Investment properties (Notes 4 and 16)	2,075,205	1	2,075,345	1	2,075,484	1
Other intangible assets (Notes 4 and 17)	1,187,784	-	1,210,796	1	1,206,857	-
Deferred income tax asset (Notes 4, 5 and 28)	5,225,931	2	5,152,070	2	5,370,186	2
Other assets - noncurrent (Notes 18, 21, 33, 35 and 36)	4,131,020	1	3,430,753	1	6,299,787	3
Total noncurrent assets	246,042,398	84	177,309,022	77	179,680,990	78
TOTAL	\$ 293,121,547	100	\$ 230,136,582	100	\$ 229,494,984	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Notes 19 and 33)	\$ -	-	\$ -	-	\$ 230,000	-
Short-term bills payable (Note 19)	-	-	-	-	219,962	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 33)	-	-	221	-	2,453	-
Financial liabilities for hedging - current (Notes 3, 4, 21 and 33)	6,167,457	2	560	-	3,078	-
Notes and accounts payable (Note 33)	1,546,528	1	1,594,487	1	1,235,601	1
Notes and accounts payable - related parties (Notes 33 and 34)	541,965	-	532,815	-	539,888	-
Contract liabilities - current (Notes 4, 5 and 23)	21,251,986	7	19,546,455	9	17,661,741	8
Other payables (Notes 22 and 33)	13,430,894	5	14,146,198	6	12,136,771	5
Current tax liabilities (Notes 4 and 28)	232,768	-	164,181	-	64,189	-
Lease liabilities - current (Notes 3, 4, 21 and 25)	4,561,017	2	-	-	-	-
Provisions - current (Notes 4, 5, 24 and 33)	53,818	-	321,075	-	778,409	-
Bonds payable and put options of convertible bonds - current portion (Notes 4, 20 and 33)	6,600,000	2	4,445,900	2	4,432,240	2
Loans and debts - current portion (Notes 19, 33 and 35)	9,463,029	3	15,709,487	7	20,819,750	9
Capital lease obligations - current portion (Notes 4, 21 and 33)	-	-	633,398	-	781,352	-
Other current liabilities (Note 33)	6,103,156	2	3,855,115	2	5,423,919	3
Total current liabilities	69,952,618	24	60,949,892	27	64,329,353	28
NONCURRENT LIABILITIES						
Financial liabilities for hedging - noncurrent (Notes 3, 4, 21 and 33)	33,206,454	11	-	-	-	-
Bonds payable - noncurrent (Notes 4, 20 and 33)	25,412,707	9	28,473,710	12	23,934,340	10
Loans and debts - noncurrent (Notes 19, 33 and 35)	56,579,627	19	60,686,148	26	62,764,279	27
Contract liabilities - noncurrent (Notes 4 and 23)	2,049,234	1	1,903,665	1	1,841,330	1
Provisions - noncurrent (Notes 4, 24 and 33)	9,469,265	3	8,473,464	4	8,347,427	4
Deferred tax liabilities (Notes 4 and 28)	193,631	-	188,447	-	179,029	-
Lease liabilities - non-current (Notes 3, 4, 21 and 35)	29,198,565	10	-	-	-	-
Capital lease obligations - noncurrent (Notes 4, 21, 33 and 35)	-	-	2,945	-	21,650	-
Accrued pension costs (Notes 4, 5 and 25)	8,662,756	3	8,803,382	4	7,920,864	4
Other noncurrent liabilities (Note 33)	622,134	-	607,845	-	781,331	-
Total noncurrent liabilities	165,394,373	56	109,139,606	47	105,790,250	46
Total liabilities	235,346,991	80	170,089,498	74	170,119,603	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)						
Share capital	54,209,846	19	54,209,846	24	54,709,846	24
Capital surplus	1,241,214	-	1,241,214	-	1,209,977	1
Retained earnings (accumulated deficits)						
Legal reserve	466,416	-	351,923	-	351,923	-
Special reserve	12,967	-	118,810	-	118,810	-
Unappropriated retained earnings (accumulated deficits)	(686,463)	-	1,144,928	1	188,996	-
Total retained earnings (accumulated deficits)	(207,080)	-	1,615,661	1	659,729	-
Other equity	(200,614)	-	58,223	-	94,464	-
Treasury shares	(43,372)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	54,999,994	19	57,081,572	25	56,630,644	25
NON-CONTROLLING INTERESTS (Note 26)	2,774,562	1	2,965,512	1	2,744,737	1
Total equity	57,774,556	20	60,047,084	26	59,375,381	26
TOTAL	\$ 293,121,547	100	\$ 230,136,582	100	\$ 229,494,984	100

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

(With Deloitte & Touche auditors' review report dated August 7, 2019)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUE (Notes 4, 27 and 34)	\$ 42,892,312	100	\$ 41,275,835	100	\$ 83,297,660	100	\$ 81,010,862	100
COSTS (Notes 4, 11, 17, 21, 24, 25, 27, 28 and 36)	<u>38,595,777</u>	<u>90</u>	<u>37,316,665</u>	<u>90</u>	<u>74,787,686</u>	<u>90</u>	<u>73,257,685</u>	<u>90</u>
GROSS PROFIT	4,296,535	10	3,959,170	10	8,509,974	10	7,753,177	10
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>3,724,015</u>	<u>9</u>	<u>3,181,949</u>	<u>8</u>	<u>7,175,981</u>	<u>8</u>	<u>6,555,134</u>	<u>8</u>
OPERATING PROFIT	<u>572,520</u>	<u>1</u>	<u>777,221</u>	<u>2</u>	<u>1,333,993</u>	<u>2</u>	<u>1,198,043</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 27)	172,623	-	156,299	1	325,879	-	288,524	-
Other gains and losses (Notes 12, 15 and 27)	(170,434)	-	(298,968)	(1)	(236,875)	-	(357,670)	-
Finance costs (Notes 27 and 33)	(844,417)	(2)	(350,509)	(1)	(1,720,248)	(2)	(666,061)	(1)
Share of the profit of associates and joint ventures (Note 14)	<u>87,895</u>	<u>-</u>	<u>82,104</u>	<u>-</u>	<u>157,799</u>	<u>-</u>	<u>163,819</u>	<u>-</u>
Total non-operating income and expenses	<u>(754,333)</u>	<u>(2)</u>	<u>(411,074)</u>	<u>(1)</u>	<u>(1,473,445)</u>	<u>(2)</u>	<u>(571,388)</u>	<u>(1)</u>
PROFIT (LOSS) BEFORE INCOME TAX	(181,813)	(1)	366,147	1	(139,452)	-	626,655	1
INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 28)	<u>109,077</u>	<u>-</u>	<u>155,280</u>	<u>-</u>	<u>298,314</u>	<u>1</u>	<u>223,897</u>	<u>-</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>(290,890)</u>	<u>(1)</u>	<u>210,867</u>	<u>1</u>	<u>(437,766)</u>	<u>(1)</u>	<u>402,758</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified subsequently to profit or loss:								
Gain on hedging instruments subject to basis adjustment	-	-	54,057	-	-	-	17,496	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	(18,971)	-	17,024	-	(2,065)	-	18,438	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	<u>4,275</u>	<u>-</u>	<u>(22,718)</u>	<u>-</u>	<u>851</u>	<u>-</u>	<u>(14,285)</u>	<u>-</u>
	<u>(14,696)</u>	<u>-</u>	<u>48,363</u>	<u>-</u>	<u>(1,214)</u>	<u>-</u>	<u>21,649</u>	<u>-</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations (Notes 4 and 26)	\$ 2,370	-	\$ 61,282	-	\$ 26,046	-	\$ 33,625	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 21, 26 and 33)	(234,490)	-	103,810	-	(358,236)	-	87,698	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	45,799	-	(19,433)	-	67,842	-	(16,798)	-
	<u>(186,321)</u>	<u>-</u>	<u>145,659</u>	<u>-</u>	<u>(264,348)</u>	<u>-</u>	<u>104,525</u>	<u>-</u>
Other comprehensive income (loss) for the period, net of income tax	<u>(201,017)</u>	<u>-</u>	<u>194,022</u>	<u>-</u>	<u>(265,562)</u>	<u>-</u>	<u>126,174</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ (491,907)</u>	<u>(1)</u>	<u>\$ 404,889</u>	<u>1</u>	<u>\$ (703,328)</u>	<u>(1)</u>	<u>\$ 528,932</u>	<u>1</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	\$ (442,759)	(1)	\$ 63,442	-	\$ (686,463)	(1)	\$ 188,934	-
Non-controlling interests	<u>151,869</u>	<u>-</u>	<u>147,425</u>	<u>1</u>	<u>248,697</u>	<u>-</u>	<u>213,824</u>	<u>-</u>
	<u>\$ (290,890)</u>	<u>(1)</u>	<u>\$ 210,867</u>	<u>1</u>	<u>\$ (437,766)</u>	<u>(1)</u>	<u>\$ 402,758</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	\$ (641,416)	(1)	\$ 258,718	1	\$ (953,773)	(1)	\$ 313,346	1
Non-controlling interests	<u>149,509</u>	<u>-</u>	<u>146,171</u>	<u>-</u>	<u>250,445</u>	<u>-</u>	<u>215,586</u>	<u>-</u>
	<u>\$ (491,907)</u>	<u>(1)</u>	<u>\$ 404,889</u>	<u>1</u>	<u>\$ (703,328)</u>	<u>(1)</u>	<u>\$ 528,932</u>	<u>1</u>
EARNINGS (LOSSES) PER SHARE (NEW TAIWAN DOLLARS; Note 30)								
Basic	<u>\$(0.08)</u>		<u>\$ 0.01</u>		<u>\$(0.13)</u>		<u>\$ 0.03</u>	
Diluted	<u>\$(0.08)</u>		<u>\$ 0.01</u>		<u>\$(0.13)</u>		<u>\$ 0.03</u>	

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

(With Deloitte & Touche auditors' review report dated August 7, 2019)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company												Non-controlling Interests	Total Equity
	Retained Earnings					Other Equity								
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares	Total		
BALANCE AT JANUARY 1, 2018	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ 1,458,313	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (43,372)	\$ 57,023,237	\$ 2,134,282	\$ 59,157,519
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637	-	40,637
BALANCE AT JANUARY 1, 2018 AS RESTATED	54,709,846	799,999	206,092	-	1,458,373	(34,986)	-	42,351	-	(74,429)	(43,372)	57,063,874	2,134,282	59,198,156
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978	-	409,978
Basis adjustment to gain on hedging instruments	-	-	-	-	-	-	-	-	-	37,116	-	37,116	-	37,116
Appropriation of 2017 earnings														
Legal reserve	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.2181820086	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)	-	(1,193,670)
Net profit for the six months ended June 30, 2018	-	-	-	-	188,934	-	-	-	-	-	-	188,934	213,824	402,758
Other comprehensive income for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	26,902	-	15,075	-	82,435	-	124,412	1,762	126,174
Total comprehensive income for the six months ended June 30, 2018	-	-	-	-	188,934	26,902	-	15,075	-	82,435	-	313,346	215,586	528,932
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(171,019)	(171,019)
Non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	565,888	565,888
BALANCE AT JUNE 30, 2018	\$ 54,709,846	\$ 1,209,977	\$ 351,923	\$ 118,810	\$ 188,996	\$ (8,084)	\$ -	\$ 57,426	\$ -	\$ 45,122	\$ (43,372)	\$ 56,630,644	\$ 2,744,737	\$ 59,375,381
BALANCE AT JANUARY 1, 2019	\$ 54,209,846	\$ 1,241,214	\$ 351,923	\$ 118,810	\$ 1,144,928	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ (43,372)	\$ 57,081,572	\$ 2,965,512	\$ 60,047,084
Appropriation of 2018 earnings														
Legal reserve	-	-	114,493	-	(114,493)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(105,843)	105,843	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.20960737	-	-	-	-	(1,136,278)	-	-	-	-	-	-	(1,136,278)	-	(1,136,278)
Net profit (loss) for the six months ended June 30, 2019	-	-	-	-	(686,463)	-	-	-	-	-	-	(686,463)	248,697	(437,766)
Other comprehensive loss for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	19,706	-	(1,214)	-	(285,802)	-	(267,310)	1,748	(265,562)
Total comprehensive income (loss) for the six months ended June 30, 2019	-	-	-	-	(686,463)	19,706	-	(1,214)	-	(285,802)	-	(953,773)	250,445	(703,328)
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(416,438)	(416,438)
Loss of control of subsidiaries	-	-	-	-	-	8,368	-	105	-	-	-	8,473	(24,957)	(16,484)
BALANCE AT JUNE 30, 2019	\$ 54,209,846	\$ 1,241,214	\$ 466,416	\$ 12,967	\$ (686,463)	\$ 18,410	\$ -	\$ 41,510	\$ -	\$ (260,534)	\$ (43,372)	\$ 54,999,994	\$ 2,774,562	\$ 57,774,556

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

(With Deloitte & Touche auditors' review report dated August 7, 2019)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended	
	June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ (139,452)	\$ 626,655
Adjustments to reconcile net cash generated from (used in) operating activities:		
Depreciation expenses	16,490,382	9,538,253
Amortization expenses	101,533	92,484
Bad-debt expense	14,382	24,884
Net (gain) loss on fair value changes of financial assets and liabilities held for trading	(23,042)	(9,163)
Interest income	(194,430)	(141,518)
Dividend income	(6,700)	(7,705)
Share of profit of associates and joint ventures	(157,799)	(163,819)
Loss (gain) on disposal of property, plant and equipment	(5,458)	282,959
Loss (gain) on disposal of noncurrent assets held for sale	10,462	368,992
(Gain) loss on disposal of investments	(7,656)	(456,426)
Loss on inventory and property, plant and equipment	381,788	447,903
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	-	60,812
Net (gain) loss on foreign currency exchange	476,460	222,364
Finance costs	1,720,248	666,061
Recognition of provisions	2,100,313	1,696,073
Amortization of unrealized gain on sale-leasebacks	-	(7,256)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	15,846	493,441
Financial assets and liabilities held for trading	(68,379)	-
Notes and accounts receivable	195,574	(337,291)
Accounts receivable - related parties	(192,866)	34,027
Other receivables	(246,963)	(57,775)
Inventories	300,303	(469,909)
Financial assets at amortized cost	2,294,539	812,643
Other current assets	710,277	(537,777)
Notes and accounts payable	(489,142)	456,738
Accounts payable - related parties	105,013	67,721
Other payables	(168,563)	(1,018,619)
Contract liabilities	1,851,965	1,309,854
Provisions	(1,452,256)	(1,223,154)
Other current liabilities	517,947	148,368
Accrued pension liabilities	(140,528)	(235,245)
Other liabilities	1,060	13,934
Cash generated from operations	23,994,858	12,698,509
Interest received	184,615	107,464

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2019	2018
Dividends received	\$ 658,408	\$ 28,807
Interest paid	(1,735,507)	(751,904)
Income tax paid	<u>(265,436)</u>	<u>(100,072)</u>
Net cash generated from operating activities	<u>22,836,938</u>	<u>11,982,804</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of noncurrent assets held for sale	35,692	694,658
Payments for property, plant and equipment	(2,638,353)	(2,092,336)
Proceeds from disposal of property, plant and equipment	38,428	294,571
Increase in refundable deposits	(141,954)	(17,001)
Decrease in refundable deposits	131,469	57,363
Increase in prepayments for equipment	(4,094,312)	(9,314,366)
Increase in computer software costs	(81,022)	(81,461)
Increase in restricted assets	(6,844)	(27,576)
Net cash outflow on disposal of associates	(17,413)	-
Acquisition of subsidiaries	<u>-</u>	<u>136,769</u>
Net cash used in investing activities	<u>(6,774,309)</u>	<u>(10,349,379)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	-	400,000
Decrease in short-term loans	-	(290,000)
Increase in short-term bills payable	350,060	289,962
Decrease in short-term bills payable	(350,060)	(70,000)
Proceeds from issuance of bonds payable	3,500,000	6,012,000
Repayments of bonds payable	(4,445,900)	(2,700,000)
Proceeds of long-term debts and capital lease obligations	1,726,863	11,594,850
Repayments of long-term debts and capital lease obligations	(12,117,617)	(14,519,274)
Repayments of the principal portion of lease liabilities	(5,810,165)	-
Proceeds of guarantee deposits received	80,786	86,653
Refunds of guarantee deposits received	(74,443)	(31,104)
Cash dividends paid to non-controlling interests	<u>(416,438)</u>	<u>(171,019)</u>
Net cash generated from (used in) financing activities	<u>(17,556,914)</u>	<u>602,068</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(94,348)</u>	<u>41,593</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended	
	June 30	
	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,588,633)	\$ 2,277,086
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>24,937,537</u>	<u>22,585,332</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 23,348,904</u>	<u>\$ 24,862,418</u>

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

(With Deloitte & Touche auditors' review report dated August 7, 2019)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

China Airlines, Ltd. (the “Company”) was founded in 1959 and its shares have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company is primarily involved in (a) air transport services for passengers, cargo and mail; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) the sale of aircraft parts and aviation equipment; and (f) leasing of aircraft.

The major shareholders of the Company are the China Aviation Development Foundation (“CADF”) and the National Development Fund (“NDF”), Executive Yuan. As of June 30, 2019, December 31, 2018 and June 30, 2018, CADF and NDF held a combined 44.03%, 44.03% and 43.63% of the Company’s shares.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) were approved by the board of directors and authorized for issue on August 7, 2019.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies:

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at either an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments, or their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate, the Group applies IAS 36 to all right-of-use assets.

Leasehold which was previously accounted for as an operating lease under IAS 17, qualifies as an investment property. A lease liability for that leasehold is recognized and measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019.

If the Group determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it is accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Group recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Prior to the application of IFRS 16, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Group does not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee applies to the leaseback portion. In addition, for assets previously accounted for as a finance lease under IAS 17, the Group continues to amortize any gains on sales over the lease term.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 2.58%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	<u>\$ 78,030,370</u>
Undiscounted amounts on January 1, 2019	<u>\$ 78,030,370</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 67,420,164
Add: Finance lease payable on December 31, 2018	633,775
Add: Adjustments as a result of a different treatment of extension and termination options	8,010,753
Add: Other	2,151,203
Less: Derivative financial instruments for hedging	<u>(41,919,508)</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 36,296,387</u>

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases	\$ 861,045	\$ (861,045)	\$ -
Refundable deposits	1,089,690	(25,617)	1,064,073
Right-of-use assets	-	78,499,374	78,499,374
Property, plant and equipment	<u>163,107,718</u>	<u>(30,682)</u>	<u>163,077,036</u>
Total effect on assets	<u>\$ 165,058,453</u>	<u>\$ 77,582,030</u>	<u>\$ 242,640,483</u>
Lease liabilities - current	\$ -	\$ 3,924,776	\$ 3,924,776
Lease liabilities - non-current	-	32,371,611	32,371,611
Finance lease payables	633,775	(633,775)	-
Accrued rent payable	90	(90)	-
Financial liabilities for hedging - current	560	5,947,449	5,948,009
Financial liabilities for hedging - non-current	<u>-</u>	<u>35,972,059</u>	<u>35,972,059</u>
Total effect on liabilities	<u>\$ 634,425</u>	<u>\$ 77,582,030</u>	<u>\$ 78,216,455</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 2)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

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

The application of new IFRSs announced by IASB but not yet endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

Except for the policies listed below, the accounting policies adopted for these consolidated financial statements are the same as those for the consolidated financial statements for the year ended December 31, 2018.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosures required in a full set of annual consolidated financial statements.

Basis of Consolidation

The consolidated financial statements reporting principles are the same as those for the consolidated financial statements for the year ended December 31, 2018.

Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a. The Group as lessor

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

b. The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

For sale and leaseback transactions, if the transfer of an asset satisfies the requirements of IFRS 15 to be accounted for as a sale, the Group recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor, and adjusts the off-market terms to measure the sale proceeds at fair value. If the transfer does not satisfy the requirements of IFRS 15 to be accounted for as a sale, it is accounted for as a financing transaction.

2018

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

a. Financial leases

The Group as lessee

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 reductions 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 rentals are recognized as expenses in the periods in which they are incurred.

b. Sales and leasebacks

For a sale and leaseback transaction, if it meets the condition whereby all the risks and rewards of ownership of the leased asset are essentially transferred to the lessee, the sale and leaseback transaction is classified as a finance lease. If part of the significant risks and rewards of ownership of the leased asset remain with the lessor (i.e. the buyer), the sale and leaseback transaction is classified as an operating lease.

1) Financial leases

This transaction does not actually dispose of the assets. The accounting treatment used is to treat the transaction as if it did not occur, and the assets are continuously recognized at the book value of the asset before sale.

2) Operating leases

If the selling price is equal to the fair value, it is regarded as an ordinary sales transaction and the gain or loss should be recognized immediately. If the 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 the selling price which is above fair value shall be deferred and amortized over the period of the lease.

c. Operating leases

1) The Group as lessor

Lease income from operating leases is recognized as income on a straight-line basis over the relevant lease period, unless another systematic basis is more representative of the timeline in which the lessee benefits from the leased asset.

2) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease period, unless another systematic basis is more representative of the timeline in which the lessee benefits from the leased asset. Under operating leases, contingent rentals are recognized as expenses in the period in which they are incurred.

The lease incentives for the signing of operating leases are recognized as liabilities. The incentive benefit is recognized as a reduction in rental expenses on a straight-line basis, unless another systematic basis is more representative of the timeline in which the lessee realizes the benefits.

Employee Benefits

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

Income Tax

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

Business Combinations

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Group directly disposed of the related assets or liabilities.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments and key sources of estimation uncertainty for these interim consolidated financial statements are the same as those applied for the consolidated financial statements for the year ended December 31, 2018.

6. CASH AND CASH EQUIVALENTS

	June 30, 2019	December 31, 2018	June 30, 2018
Cash on hand and revolving funds	\$ 227,671	\$ 413,139	\$ 410,989
Checking accounts and demand deposits	9,234,222	7,770,200	6,518,244
Cash equivalent			
Time deposits with original maturities of less than three months	12,569,690	15,784,323	13,066,481
Repurchase agreements collateralized by bonds	<u>1,317,321</u>	<u>969,875</u>	<u>4,866,704</u>
	<u>\$ 23,348,904</u>	<u>\$ 24,937,537</u>	<u>\$ 24,862,418</u>

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

	June 30, 2019	December 31, 2018	June 30, 2018
Bank balance	0%-1.90%	0%-1.90%	0%-1.90%
Time deposits with original maturities of less than three months	0.59%-3.50%	0.59%-3.55%	0.40%-4.60%
Repurchase agreements collateralized by bonds	0.43%-2.83%	0.63%-3.30%	0.40%-2.77%

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

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Financial assets at FVTPL - current</u>			
Financial assets mandatorily classified as at FVTPL			
Hybrid financial assets			
Derivative instruments	\$ 5,447	\$ -	\$ -
Non-derivative financial assets			
Beneficial certificates	<u>274,254</u>	<u>206,001</u>	<u>456,278</u>
	<u>\$ 279,071</u>	<u>\$ 206,001</u>	<u>\$ 456,278</u>
<u>Financial liabilities held for trading</u>			
Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts			
Current	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ 2,453</u>

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)
<u>June 30, 2019</u>			
Buy forward contracts	NTD/USD	2019.7.29-2019.10.29	NTD155,280/USD5,000
<u>December 31, 2018</u>			
Buy forward contracts	NTD/USD	2019.1.2-2019.1.31	NTD30,923/USD1,000
<u>June 30, 2018</u>			
Buy forward contracts	NTD/USD	2018.7.31-2019.1.31	NTD106,907/USD3,500

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2019

Investments in Equity Instruments

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Noncurrent</u>			
Foreign investments			
Unlisted shares	\$ 106,669	\$ 110,445	\$ 124,237
Domestic investments			
Unlisted shares	<u>23,937</u>	<u>21,746</u>	<u>25,743</u>
	<u>\$ 130,606</u>	<u>\$ 132,191</u>	<u>\$ 149,980</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes and are expected to profit through long-term investment. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair values in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2019

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Current</u>			
Time deposits with original maturities of more than 3 months (e)	<u>\$ 1,339,154</u>	<u>\$ 3,856,660</u>	<u>\$ 812,643</u>

The range of interest rates for time deposits with original maturities of more than 3 months were approximately 0.40%-2.80%, 0.40%-1.36% and 0.64%-2.47% per annum as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE, NET

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Notes receivable</u>	<u>\$ 608,079</u>	<u>\$ 598,824</u>	<u>\$ 540,127</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	9,464,819	9,667,010	8,864,598
Less: Allowance for impairment loss	<u>(206,968)</u>	<u>(227,306)</u>	<u>(207,243)</u>
	<u>9,257,851</u>	<u>9,439,704</u>	<u>8,657,355</u>
	<u>\$ 9,865,930</u>	<u>\$ 10,038,528</u>	<u>\$ 9,197,482</u>

The average credit period was 7 to 55 days. In determining the recoverability of a accounts receivable, the Group considered any change in the credit quality of the receivable since the date credit was initially granted to the end of the reporting period, and any allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Group's past default experience with the counterparty and an analysis of the counterparty's current financial position. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowance for all trade receivables. The expected credit losses on accounts receivables are estimated using a provision matrix by reference to past default experience with the debtors and an analysis of the debtors' current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the for loss allowance based on past due status is not further distinguished according to the different segments of the Group's customer base.

The Group writes off accounts receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of accounts receivable based on the Group's provision matrix.

June 30, 2019

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.06%	0.21%	1.12%	19.48%	97.46%	-
Gross carrying amount	\$ 7,400,031	\$ 1,484,996	\$ 306,445	\$ 90,263	\$ 183,084	\$ 9,464,819
Loss allowance (lifetime ECLs)	<u>(4,339)</u>	<u>(3,169)</u>	<u>(3,445)</u>	<u>(17,579)</u>	<u>(178,436)</u>	<u>(206,968)</u>
Amortized cost	<u>\$ 7,395,692</u>	<u>\$ 1,481,827</u>	<u>\$ 303,000</u>	<u>\$ 72,684</u>	<u>\$ 4,648</u>	<u>\$ 9,257,851</u>

December 31, 2018

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.06%	0.06%	3.67%	21.78%	97.50%	-
Gross carrying amount	\$ 7,856,048	\$ 1,424,421	\$ 103,498	\$ 76,415	\$ 206,628	\$ 9,667,010
Loss allowance (lifetime ECLs)	<u>(4,546)</u>	<u>(856)</u>	<u>(3,796)</u>	<u>(16,642)</u>	<u>(201,466)</u>	<u>(227,306)</u>
Amortized cost	<u>\$ 7,851,502</u>	<u>\$ 1,423,565</u>	<u>\$ 99,702</u>	<u>\$ 59,773</u>	<u>\$ 5,162</u>	<u>\$ 9,439,704</u>

June 30, 2018

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.05%	0.02%	0.32%	12.13%	94.95%	-
Gross carrying amount	\$ 6,777,913	\$ 1,525,721	\$ 270,118	\$ 88,562	\$ 202,284	\$ 8,864,598
Loss allowance (lifetime ECLs)	<u>(3,229)</u>	<u>(320)</u>	<u>(874)</u>	<u>(10,742)</u>	<u>(192,078)</u>	<u>(207,243)</u>
Amortized cost	<u>\$ 6,774,684</u>	<u>\$ 1,525,401</u>	<u>\$ 269,244</u>	<u>\$ 77,820</u>	<u>\$ 10,206</u>	<u>\$ 8,657,355</u>

The movements of the loss allowance of accounts receivable were as follows:

	For the Six Months Ended June 30	
	2019	2018
Balance at January 1	\$ 227,306	\$ 181,868
Add: Net remeasurement of loss allowance	14,382	24,884
Less: Amounts written off	(34,703)	(462)
Foreign exchange gains and losses	-	953
Loss of control of subsidiaries	<u>(17)</u>	<u>-</u>
Balance at June 30	<u>\$ 206,968</u>	<u>\$ 207,243</u>

11. INVENTORIES, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Aircraft spare parts	\$ 7,342,824	\$ 7,847,082	\$ 7,785,486
Items for in-flight sale	563,877	556,365	568,970
Work in process - maintenance services	285,396	227,975	521,595
Others	<u>28,570</u>	<u>23,288</u>	<u>20,558</u>
	<u>\$ 8,220,667</u>	<u>\$ 8,654,710</u>	<u>\$ 8,896,609</u>

The operating costs for the six months ended June 30, 2019 and 2018 included losses from inventory write-downs of \$266,052 thousand and \$324,398 thousand, respectively. And the operating costs for the three months ended June 30, 2019 and 2018 included losses from inventory write-downs of \$3,078 thousand and \$107,999 thousand, respectively.

12. NONCURRENT ASSETS HELD FOR SALE

	June 30, 2019	December 31, 2018	June 30, 2018
Aircraft held for sale	<u>\$ -</u>	<u>\$ 46,154</u>	<u>\$ 110,778</u>

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as noncurrent assets held for sale, had an original carrying amount which was higher than the expected sale price and which was recognized as an impairment loss, and would be continuously assessed whether there are further impairments in subsequent periods. However, the actual loss shall be identified by the actual sale price.

The Company recognized impairment losses of \$0 and \$10,812 thousand for the six months ended June 30, 2019 and 2018. Some aircraft had completed the planned disposal procedures, and the Company recognized the disposal losses of \$10,462 thousand and \$368,992 thousand for the six months ended June 30, 2019 and 2018, respectively.

The Company recognized impairment losses of \$0 and \$10,812 thousand for the three months ended June 30, 2019 and 2018. Some aircraft had completed the planned disposal procedures, and the Company recognized the disposal gains and losses of \$0 and \$244,702 thousand for the three months ended June 30, 2019 and 2018, respectively.

The fair value measurement is classified as Level 3, and the fair value was determined according to similar transactions of the related market and the proposed sale price which was based on the current status of the aircraft.

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)			
			June 30, 2019	December 31, 2018	June 30, 2018	
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100	100	
	Cal-Asia Investment	General investing	100	100	100	
	Dynasty Aerotech International Corp.	Cleaning of aircraft and maintenance of machine and equipment	100	100	100	
	Yestrip	Travel business	100	100	100	
	Cal Park	Real estate leasing and international trade	100	100	100	
	Cal Hotel Co., Ltd.	Hotel business	100	100	100	
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94	94	
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94	94	
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59	59	
	Dynasty Holidays	Travel business	20	51	51	
	Taoyuan International Airport Services	Airport services	49	49	49	
	Taiwan Airport Services (Note)	Airport services	48	48	48	
	Global Sky Express	Forwarding and storage of air cargo	25	25	25	
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	100	100	100	
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100	100	
	Kaohsiung Catering Service, Ltd.	In-flight catering	54	54	54	
	Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100	100
		Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100	100
	Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investing	100	100	100

Note: Proportion of ownership is considered from the Group view.

Except that the Company has control over Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express, the others are investees that the Company had more than 50% of their voting shares. The above financial information of the subsidiaries for the six months ended June 30, 2019 and 2018 of these subsidiaries was reported according to reports that was not reviewed by independent auditors, except for Mandarin Airlines and Tigerair Taiwan Co., Ltd.

The Group's respective holdings of the issued share capital of China Pacific Catering Services, China Pacific Laundry Services and Delica International Co., Ltd. exceeded 50%, yet the Group did not have control over the investees. For the related information, please refer to Note 14, b.

The Group paid \$243,743 thousand on March 7, 2018 to acquire an additional 18% of the issued share capital of Kaohsiung Catering, Ltd. (Kaohsiung Catering). The Group's holding of the issued share capital of Kaohsiung Catering exceeds 50%; therefore, Kaohsiung Catering is listed as a subsidiary because the Group has control over the investee. For the disclosure of the Group's acquisition of Kaohsiung Catering, please refer to Note 30.

The board of directors of the Company decided to sell part of the equity of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. on January 21, 2019, and completed the transaction on January 31, 2019. After the sale of the equity, the Group's holding of the issued share capital decreased from 51% to 20%. Dynasty Holidays was classified as an associate since the Group lost control of the subsidiary. Therefore, the relevant assets and liabilities were not consolidated in the current period, and only the profit and loss from January 1, 2019 to January 31, 2019 was consolidated. For the information about the disposal of the subsidiary, please refer to Note 31.

In order to prepare the listing of Tigerair Taiwan Co., Ltd. and comply with the rules relating to the examination for public listing, the release of the shares of Tigerair Taiwan Co., Ltd. held by the Company and Mandarin Airlines was resolved in the shareholders' meeting of the Company on June 25, 2019, and in the shareholders' meeting of Mandarin Airlines on June 27, 2019. The shares shall be subscribed by all shareholders of the Company and Mandarin Airlines on the basis of the percentage of shareholdings. For the subscribed shares that the original shareholders waive or for the under-subscribed portion, the chairman is authorized to contact specific persons to subscribe. The subscription price is set at \$41 per share, and it is expected to complete the delivery and transfer of shares are expected to be completed on September 30, 2019.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	June 30, 2019	December 31, 2018	June 30, 2018
Investments in associates	\$ 1,275,351	\$ 1,217,863	\$ 1,310,369
Investments in jointly controlled entities	<u>1,092,216</u>	<u>982,286</u>	<u>1,039,007</u>
	<u>\$ 2,367,567</u>	<u>\$ 2,200,149</u>	<u>\$ 2,349,376</u>

a. Investments in associates

The investments in associates were as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Unlisted companies</u>			
China Aircraft Services	\$ 510,687	\$ 497,362	\$ 494,259
Dynasty Holidays	11,034	-	-
Airport Air Cargo Terminal (Xiamen)	457,084	442,891	497,988
Airport Air Cargo Service (Xiamen)	248,676	233,417	272,738
Eastern United International Logistics (Holdings) Ltd.	<u>47,870</u>	<u>44,193</u>	<u>45,384</u>
	<u>\$ 1,275,351</u>	<u>\$ 1,217,863</u>	<u>\$ 1,310,369</u>

At the end of the reporting period, the proportion of ownership and voting rights of associates held by the Group were as follows:

Name of Associate	Proportion of Ownership and Voting Rights		
	June 30, 2019	December 31, 2018	June 30, 2018
China Aircraft Services	20%	20%	20%
Dynasty Holidays	20%	51%	51%
Airport Air Cargo Terminal (Xiamen)	28%	28%	28%
Airport Air Cargo Service (Xiamen)	28%	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%	35%

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
China Aircraft Services	\$ 5,059	\$ 710	\$ 6,909	\$ (967)
Dynasty Holidays	607	-	604	-
Kaohsiung Catering Services	-	-	-	15,113
Airport Air Cargo Terminal (Xiamen)	6,368	9,013	10,508	12,521
Airport Air Cargo Service (Xiamen)	6,969	8,720	13,398	15,632
Eastern United International Logistics (Holdings) Ltd.	<u>1,677</u>	<u>1,095</u>	<u>3,334</u>	<u>2,071</u>
	<u>\$ 20,680</u>	<u>\$ 19,538</u>	<u>\$ 34,753</u>	<u>\$ 44,370</u>

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were based on the associates' financial statements which have not been reviewed. However, the management determined that there would have been no significant adjustments to the related information presented in these consolidated financial statements had this investee's financial statements been independently reviewed.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
China Pacific Catering Services	\$ 921,127	\$ 805,157	\$ 868,496
China Pacific Laundry Services	160,861	166,901	160,283
Nordam Asia Ltd.	2,358	2,358	2,361
Delica International Co., Ltd.	<u>7,870</u>	<u>7,870</u>	<u>7,867</u>
	<u>\$ 1,092,216</u>	<u>\$ 982,286</u>	<u>\$ 1,039,007</u>

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

	Proportion of Ownership and Voting Rights		
	June 30, 2019	December 31, 2018	June 30, 2018
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%
Nordam Asia Ltd.	49%	49%	49%
Delica International Co., Ltd.	51%	51%	51%

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

To enhance the Group's maintenance capabilities, the Company established a joint venture with the US Nordam Aerospace Group in December 2017 to provide thrust reversers and composite repair services in Asia under the Nordam brand. NORDAM has filed for Chapter 11 bankruptcy reorganization in the USA on July 22, 2018 to solve the business disputation with their cooperative partner, so their company operation was not impact.

To expand the Group's catering business, Kaohsiung Catering entered into a joint venture agreement with a Japanese brand company to invest in Delica International Co, Ltd., with the Japanese brand company having the right to make decisions on operations, and therefore, the Group does not have control.

The recognized investment income of jointly controlled entitles accounted for using the equity method were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
China Pacific Catering Services	\$ 62,855	\$ 58,151	\$ 115,970	\$ 111,532
China Pacific Laundry Services	4,360	4,414	7,076	7,955
NORDAM Asia Ltd.	-	1	-	(38)
Delica International Co., Ltd.	-	-	-	-
	<u>\$ 67,215</u>	<u>\$ 62,566</u>	<u>\$ 123,046</u>	<u>\$ 119,449</u>

The investments accounted for by using the equity method and the share of profit or loss and other comprehensive income of those investments were based on the jointly controlled entities' financial statements which have not been reviewed. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently reviewed.

For information on the major businesses and products and the locations of registration for the major business offices of the above entities, refer to Tables 5 and 6 (names, locations, and related information of investees on which the Company exercises significant influence and investment in mainland China) following the notes to the consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2018	\$ 922,626	\$ 13,698,308	\$ 263,427,144	\$ 26,187,556	\$ 16,230,011	\$ 320,465,645
Additions	-	33,096	1,239,682	-	819,558	2,092,336
Disposals	-	(5,516)	(19,420,213)	(1,486,240)	(163,180)	(21,075,149)
Reclassification	-	1,500	6,079,768	769,406	67,674	6,918,348
Net exchange differences	11,260	20,069	-	173	2,172	33,674
Acquisitions through business combinations	76,704	220,318	-	-	256,368	553,390
Balance at June 30, 2018	<u>\$ 1,010,590</u>	<u>\$ 13,967,775</u>	<u>\$ 251,326,381</u>	<u>\$ 25,470,895</u>	<u>\$ 17,212,603</u>	<u>\$ 308,988,244</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2018	\$ -	\$ (6,137,495)	\$ (136,594,765)	\$ (14,142,872)	\$ (9,972,982)	\$ (166,848,114)
Depreciation expenses	-	(213,532)	(7,881,876)	(992,671)	(450,034)	(9,538,113)
Disposals	-	4,493	18,998,845	1,207,065	161,830	20,372,233
Reclassification	-	-	9,268,354	-	2,978	9,271,332
Net exchange differences	-	(9,731)	-	(48)	(6,483)	(16,262)
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ (6,356,265)</u>	<u>\$ (116,209,442)</u>	<u>\$ (13,928,526)</u>	<u>\$ (10,264,691)</u>	<u>\$ (146,758,924)</u>
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,015,564	\$ 13,993,585	\$ 259,695,130	\$ 25,805,008	\$ 17,917,780	\$ 318,427,067
Additions	-	25,623	2,105,992	-	506,738	2,638,353
Disposals	-	(751)	(1,823,636)	(668,721)	(191,330)	(2,684,438)
Reclassification	-	-	28,070,020	(25,131,813)	297,578	3,235,785
Net exchange differences	5,067	9,014	-	-	924	15,005
Loss of control of subsidiaries	-	-	-	(4,474)	(2,158)	(6,632)
Balance at June 30, 2019	<u>\$ 1,020,631</u>	<u>\$ 14,027,471</u>	<u>\$ 288,047,506</u>	<u>\$ -</u>	<u>\$ 18,529,532</u>	<u>\$ 321,625,140</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2019	\$ -	\$ (6,574,873)	\$ (123,507,657)	\$ (14,634,822)	\$ (10,601,997)	\$ (155,319,349)
Depreciation expenses	-	(219,666)	(9,350,459)	(627,716)	(466,346)	(10,664,187)
Disposals	-	751	1,716,659	638,039	188,765	2,544,214
Reclassification	-	-	(14,621,872)	14,622,387	689	1,204
Net exchange differences	-	(4,481)	-	-	(4,907)	(9,388)
Loss of control of subsidiaries	-	-	-	2,112	1,727	3,839
Balance at June 30, 2019	<u>\$ -</u>	<u>\$ (6,798,269)</u>	<u>\$ (145,763,329)</u>	<u>\$ -</u>	<u>\$ (10,882,069)</u>	<u>\$ (163,443,667)</u>

The reclassification mostly enumerated the amount of prepayments for equipment.

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

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

Regarding changes in fleet composition and the future retirement plan, the Group recognized impairment losses on aircraft equipment for the three months ended June 30, 2018 and for the six months ended June 30, 2018 of \$0 thousand and \$50,000 thousand based on the difference between the recoverable amount, which applied the fair value (Level 3), and the carrying amount. The fair value was determined based on aircraft conditions and market estimates.

Refer to Note 35 for the carrying amounts of property, plant and equipment pledged by the Group.

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

16. INVESTMENT PROPERTIES

	June 30, 2019	December 31, 2018	June 30, 2018
Carrying amount			
Investment properties	<u>\$ 2,075,205</u>	<u>\$ 2,075,345</u>	<u>\$ 2,075,484</u>

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

The fair values of the investment properties held by the Group were both \$2,506,230 thousand as of December 31, 2018 and June 30, 2018, respectively. In addition, management assessed that there is no significant difference in the fair values of June 30, 2019 and December 31, 2018.

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

All of the Group's investment properties were held under freehold interests.

17. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
Balance at January 1, 2018	\$ 2,039,602	\$ -	\$ (1,020,257)	\$ 1,019,345
Additions	81,461	-	-	81,461
Amortization expenses	-	-	(92,484)	(92,484)
Acquisition through business combination	686	186,197	-	186,883
Reclassification	12,064	-	(540)	11,524
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>128</u>	<u>128</u>
Balance at June 30, 2018	<u>\$ 2,133,813</u>	<u>\$ 186,197</u>	<u>\$ (1,113,153)</u>	<u>\$ 1,206,857</u>
Balance at January 1, 2019	\$ 2,237,382	\$ 186,197	\$ (1,212,783)	\$ 1,210,796
Additions	81,022	-	-	81,022
Amortization expenses	-	-	(101,533)	(101,533)
Disposal of subsidiaries	<u>(3,858)</u>	<u>-</u>	<u>1,357</u>	<u>(2,501)</u>
Balance at June 30, 2019	<u>\$ 2,314,546</u>	<u>\$ 186,197</u>	<u>\$ (1,312,959)</u>	<u>\$ 1,187,784</u>

The above other intangible asset are amortized on a straight-line basis over 2-16 years.

18. OTHER ASSETS

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Current</u>			
Temporary payments	\$ 884,250	\$ 556,860	\$ 253,116
Prepayments	1,121,026	3,028,808	3,309,893
Restricted assets	20,832	18,623	125,234
Others	<u>683,265</u>	<u>543,591</u>	<u>865,706</u>
	<u>\$ 2,709,373</u>	<u>\$ 4,147,882</u>	<u>\$ 4,553,949</u>
<u>Noncurrent</u>			
Prepayments for aircraft	\$ 363,001	\$ 529,963	\$ 3,022,361
Prepayments - long-term	2,489,306	1,603,400	1,802,617
Refundable deposits	1,076,790	1,089,690	1,333,004
Restricted assets	99,224	100,141	131,419
Others	<u>102,699</u>	<u>107,559</u>	<u>10,386</u>
	<u>\$ 4,131,020</u>	<u>\$ 3,430,753</u>	<u>\$ 6,299,787</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A350-900, ATR72-600, A321neo and 777F aircraft. A350-900 has been fully delivered in October 2018. For details of the contract for the purchase of the ATR72-699, A321neo and B777F aircraft, refer to Note 36.

19. BORROWINGS

a. Short-term loans

	June 30, 2019	December 31, 2018	June 30, 2018
Bank loans - unsecured	\$ <u> -</u>	\$ <u> -</u>	\$ <u>230,000</u>
Interest rates	-	-	0.89%-1.40%

b. Short-term bills payable

	June 30, 2019	December 31, 2018	June 30, 2018
Commercial paper	\$ -	\$ -	\$ 220,000
Less: Unamortized discount on bills payable	<u> -</u>	<u> -</u>	<u> 38</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,962</u>
Annual discount rate	-	-	0.97%-1.06%

c. Long-term borrowings

	June 30, 2019	December 31, 2018	June 30, 2018
Unsecured bank loans	\$ 3,112,000	\$ 9,354,457	\$ 20,067,000
Secured bank loans	36,314,281	36,330,211	32,783,418
Commercial paper			
Proceeds from issue	26,650,000	30,770,000	30,800,000
Less: Unamortized discount	<u> 33,625</u>	<u> 59,033</u>	<u> 66,389</u>
	66,042,656	76,395,635	83,584,029
Less: Current portion	<u>9,463,029</u>	<u>15,709,487</u>	<u>20,819,750</u>
	<u>\$ 56,579,627</u>	<u>\$ 60,686,148</u>	<u>\$ 62,764,279</u>
Interest rates	0.93%-1.46%	0.92%-1.46%	0.6%-1.56%

Secured bank loans were secured by flight equipment, buildings, and other equipment; refer to Note 35.

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

Periods

June 30, 2019	December 31, 2018	June 30, 2018
2007.8.24- 2030.4.25	2007.5.24- 2030.4.25	2007.5.24- 2030.4.25

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2022, were used by the Group to guarantee the commercial paper issued. As of June 30, 2019, December 31, 2018 and June 30, 2018, such commercial paper was issued at discount rates of 1.1250%-1.1660%, 1.0693%-1.2960% and 1.0517%-1.2897%, respectively.

20. BONDS PAYABLE

	June 30, 2019	December 31, 2018	June 30, 2018
Unsecured corporate bonds first-time issued in 2013	\$ 2,750,000	\$ 5,500,000	\$ 5,500,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	2,350,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000	3,500,000
Unsecured corporate bonds second-time issued in 2018	4,500,000	4,500,000	-
Unsecured corporate bonds first-time issued in 2019	3,500,000	-	-
Convertible bonds issued the fifth time	-	1,695,900	1,682,240
Convertible bonds issued the sixth time	<u>5,712,707</u>	<u>5,673,710</u>	<u>5,634,340</u>
	32,012,707	32,919,610	28,366,580
Less: Current portion and put options of convertible bonds	<u>6,600,000</u>	<u>4,445,900</u>	<u>4,432,240</u>
	<u>\$ 25,412,707</u>	<u>\$ 28,473,710</u>	<u>\$ 23,934,340</u>

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.05.19-2020.05.19	Principal repayable on due date; indicator rate; payable annually	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.05.19-2024.05.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45

(Continued)

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.32
Seven-year private unsecured bonds - issued at par in November 2018; repayable in November 2024 and 2025; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November of 2024 and 2025; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually	2019.06.21-2024.06.21	Principal repayable in June of 2023 and 2024; indicator rate; payable annually	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually	2019.06.21-2026.06.21	Principal repayable in June of 2025 and 2026; indicator rate; payable annually	1.32
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Unless bonds are converted to share capital or redeemed, principal repayable one time in December 2018; 1.8245 discount rate p.a.	-
Five-year convertible bonds - issued at discount in January 2018; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Unless bonds are converted to share capital or redeemed, principal repayable one time in January 2023; 1.3821 discount rate p.a.	-

(Concluded)

The Company issued its 2016 first unsecured corporate bonds of \$5,000,000 thousand, and the purchasers of the bonds included Mandarin Airlines and Sabre Travel Network (Taiwan) who held a cumulative face value of \$300,000 thousand, which was eliminated from the consolidated financial statements.

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request that the Company repurchase their bonds at 100.75% of the face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to “current portion of bonds payable” in December 2015. The Company paid \$994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy-back, for which the Company reclassified the remaining face value to noncurrent assets.
- c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.
- d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company’s ordinary shares. The initial conversion price was set at NT\$12.24, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of August 14, 2018, the conversion price was adjusted to NT\$11.38, and corporate bonds with a face value of \$3,316,800 thousand were converted to 270,985 thousand shares of ordinary shares.
- e. The corporate bonds expired on December 26, 2018. The Company has repaid all the amount payable on January 8, 2018, and the related capital surplus-options were included under capital surplus - other.

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

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

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request that the Company repurchase their bonds at face value on the third anniversary of the offering date. The holders can exercise the right to sell on January 30, 2021.
- c. The Company may redeem the bonds at face value between April 30, 2018 and December 20, 2022 under certain conditions.
- d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's ordinary shares. The initial conversion price was set at NT\$13.2, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 29, 2019, the conversion price was adjusted to NT\$12.6.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - options. The effective interest rate of the liability component was 1.3821% per annum on initial recognition.

Proceeds from issuance	\$ 6,012,000
Equity component	<u>(409,978)</u>
Liability component at the date of issuance	<u>\$ 5,602,022</u>

The seventh issue of the Company's unsecured convertible bonds was resolved by the board of directors of the Company on August 7, 2019. The cumulative face value of the bonds shall not exceed \$3,000,000 thousand. The bonds are issued at 100%-100.5% of the face value, and the issuance period is 5 years.

21. LEASE AGREEMENTS

Year 2019

- a. Right-of-use assets - 2019

	June 30, 2019
Carrying amounts	
Land	\$ 8,337,415
Buildings	1,116,424
Flight equipment	63,287,704
Other equipment	<u>1,269</u>
	<u>\$ 72,742,812</u>

	For the Six Months Ended June 30, 2019
Additions to right-of-use assets	<u>\$ 992,516</u>
Depreciation for right-of-use assets	
Land	\$ 217,225
Buildings	369,355
Flight equipment	5,238,410
Other equipment	<u>1,065</u>
	<u>\$ 5,826,055</u>
 b. Lease liabilities - 2019	
	June 30, 2019
Carrying amounts	
Current	<u>\$ 4,561,017</u>
Non-current	<u>\$ 29,198,565</u>
 Range of discount rate for lease liabilities (include US lease hedging instruments):	
	June 30, 2019
Land	0%-2.87%
Buildings	0%-3.04%
Flight equipment	2.00%-3.34%
Other equipment	1.06%-1.73%
 c. Financial liabilities under hedge accounting	

The Company specifies a part of US lease contract as a hedging instruments to avoid exchange fluctuations is US dollar passenger revenue, and applies the accounting treatment of cash flow hedging. The lease information is as follows:

	Maturity Date	Subject	Carrying Value
June 30, 2019	2021.4.15-2028.5.15	Financial liabilities for hedging - current	\$ 6,164,197
		Financial liabilities for hedging - non-current	33,206,454

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the six months ended June 30, 2019	\$ (361,201)	\$ (19,046)
For the three months ended June 30, 2019	(236,337)	(19,046)

- d. China Airlines, Mandarin Airlines and Tigerair Taiwan leased ten 777-300ER planes, ten A330-300 planes, fifteen 737-800 planes, ten A320-200 planes, six ERJ190 planes and three ART72-600 planes for operation, lease period are 6 to 12 years from February 2006 to May 2028. The rental pricing method is partly a fixed amount of funds, and some of them are floating rents, floating rents are according to benchmark ratio, the rent is revised every half year. When the lease expires, the lease agreements have no purchase rights.

The information of refundable deposits and opening of credit letter due to rental of planes:

	June 30, 2019
Refundable deposits	\$ 680,085
Credit guarantees	1,632,939

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, refer to Note 36. The lease includes an option to extend the lease, as it is not possible to extend the lease, the amount of the lease related to the period covered by the option is not included in the lease liability.

If the amount of the extended lease period is included in the lease liability, the lease liability will increase by \$868,070 thousand on June 30, 2019.

Taiwan Air Cargo Terminal Co. and CAA signed a BOT contract with a land lease agreement. For details, please refer to Note 36.

The Company signed a rental letter of intent for six A321neo with Air Lease Corporation, which is expected to be introduced between 2021 and 2022.

The Company signed a rental letter of intent for eight A321neo with CALC Lease Corporation, which is expected to be introduced in 2022.

- e. Other lease information

The Company use operating lease agreement for investment properties, refer to Note 16.

2019

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Short-term and low price lease payment	<u>\$ 12,672</u>	<u>\$ 20,975</u>
Total of lease cash outflow	<u>\$ (3,167,427)</u>	<u>\$ (5,975,528)</u>

The Company choose to waive the recognition of the contract provisions for the short-term leases and low price lease, and does not recognize the related right-of-use assets and lease liabilities for such lease.

Year 2018

a. Sale-leaseback finance leases

	December 31, 2018	June 30, 2018
<u>Minimum lease payments - flight equipment</u>		
Within one year	\$ 596,000	\$ 744,000
Beyond one year and within five years	<u>-</u>	<u>-</u>
Present value of minimum lease payments	<u>\$ 596,000</u>	<u>\$ 744,000</u>
Interest rates	1.0680%	1.0617%

The Group had leased one A330-300 aircraft under sale-leaseback finance leases as of December 31, 2018 and June 30, 2018. The lease terms started from June 2006 to April 2019. During the lease terms, the Group retained all risks and rewards attached to the aircraft and engines and enjoyed the same substantive rights as those prior to the transactions. The interest rates underlying all obligations under these finance leases were floating. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts do not include interest expenses.

b. Finance leases

Taiwan Air Cargo Terminal Co. ("TACT") entered into a terminal construction contract. Refer to Note 36 for the terms of the contract. Dynasty Holiday Co., Ltd. signed a long-term equipment lease contract, and the lease contract is a finance lease contract.

	December 31, 2018	June 30, 2018
<u>Minimum lease payments - cargo terminal and other</u>		
Within one year	\$ 37,998	\$ 37,732
Beyond one year and within five years	<u>2,974</u>	<u>22,034</u>
	40,972	59,766
Less: Finance costs	<u>(629)</u>	<u>(764)</u>
Present value of minimum lease payments	<u>\$ 40,343</u>	<u>\$ 59,002</u>
<u>Present value of minimum lease payments - cargo terminal and other</u>		
Within one year	\$ 37,398	\$ 37,352
Beyond one year and within five years	<u>2,945</u>	<u>21,650</u>
	<u>\$ 40,343</u>	<u>\$ 59,002</u>
Discount rate	4.756%	4.756%
Total amount of present value of minimum lease payments		
Current	\$ 633,398	\$ 781,352
Noncurrent	<u>2,945</u>	<u>21,650</u>
	<u>\$ 636,343</u>	<u>\$ 803,002</u>

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

For the operating lease arrangements, please refer to the consolidated financial statements for the year ended December 31, 2018 and six months ended June 30, 2018.

As of December 31, 2018 and June 30, 2018, the refundable deposits paid by the Group under operating lease contracts were \$693,466 thousand and \$878,064 thousand, respectively. Some of the guarantees were secured by credit guarantees, and outstanding credit guarantees as of December 31, 2018 and June 30, 2018 were \$1,682,774 thousand and \$1,484,683 thousand, respectively.

The future minimum lease payments for the non-cancelable operating lease commitments were as follows:

	December 31, 2018	June 30, 2018
Up to 1 year	\$ 11,785,442	\$ 11,952,916
Over 1 year to 5 years	44,559,429	43,849,780
Over 5 years	<u>21,685,499</u>	<u>26,411,617</u>
	<u>\$ 78,030,370</u>	<u>\$ 82,214,313</u>

The lease payments recognized in expense for the current period were as follows:

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Minimum lease payments	<u>\$ 2,837,931</u>	<u>\$ 5,726,391</u>

22. OTHER PAYABLES

	June 30, 2019	December 31, 2018	June 30, 2018
Fuel costs	\$ 4,216,674	\$ 3,822,018	\$ 3,765,074
Ground service expenses	1,233,643	1,167,214	1,228,836
Repair expenses	1,178,949	1,031,700	1,036,876
Interest expenses	205,977	266,268	197,655
Short-term employee benefits	1,847,542	2,237,409	1,854,685
Terminal surcharges	988,249	1,151,578	926,047
Commission expenses	440,077	484,341	269,137
Others	<u>3,319,783</u>	<u>3,985,670</u>	<u>2,858,461</u>
	<u>\$ 13,430,894</u>	<u>\$ 14,146,198</u>	<u>\$ 12,136,771</u>

23. CONTRACT LIABILITIES

	June 30, 2019	December 31, 2018	June 30, 2018
Frequent flyer program	\$ 2,677,014	\$ 2,493,551	\$ 2,474,863
Advance ticket sales	<u>20,624,206</u>	<u>18,956,569</u>	<u>17,028,208</u>
	<u>\$ 23,301,220</u>	<u>\$ 21,450,120</u>	<u>\$ 19,503,071</u>
Current	\$ 21,251,986	\$ 19,546,455	\$ 17,661,741
Noncurrent	<u>2,049,234</u>	<u>1,903,665</u>	<u>1,841,330</u>
	<u>\$ 23,301,220</u>	<u>\$ 21,450,120</u>	<u>\$ 19,503,071</u>

24. PROVISIONS

	June 30, 2019	December 31, 2018	June 30, 2018
Operating leases - aircraft	<u>\$ 9,523,083</u>	<u>\$ 8,794,539</u>	<u>\$ 9,125,836</u>
Current	\$ 53,818	\$ 321,075	\$ 778,409
Noncurrent	<u>9,469,265</u>	<u>8,473,464</u>	<u>8,347,427</u>
	<u>\$ 9,523,083</u>	<u>\$ 8,794,539</u>	<u>\$ 9,125,836</u>
			Aircraft Lease Contracts
Balance at January 1, 2018			\$ 8,489,308
Additional provisions recognized			1,696,073
Usage			(1,223,154)
Effects of exchange rate changes			<u>163,609</u>
Balance at June 30, 2018			<u>\$ 9,125,836</u>
Balance at January 1, 2019			\$ 8,794,539
Additional provisions recognized			2,100,313
Usage			(1,452,256)
Effects of exchange rate changes			<u>80,487</u>
Balance at June 30, 2019			<u>\$ 9,523,083</u>

The Company and Mandarin Airlines leased flight equipment under operating lease agreements. Under the contracts, when the leases expire and the equipment is returned to the lessor, the flight equipment has to be repaired according to the expected years of use, number of flight hours, flight cycles and the number of engine revolution. The Company and Mandarin Airlines had existing obligations to recognize provisions when signing a lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements. In accordance to the contract, Tigerair had to pay the maintenance reserve accounted for by using the number of flying hours.

25. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Group's defined benefit retirement plans were calculated using the actuarially determined pension cost discount rates as of December 31, 2018 and 2017.

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
Operating costs	\$ 245,897	\$ 254,674	\$ 491,769	\$ 508,042
Operating expenses	<u>118,118</u>	<u>113,743</u>	<u>224,841</u>	<u>227,019</u>
	<u>\$ 364,015</u>	<u>\$ 368,417</u>	<u>\$ 716,610</u>	<u>\$ 735,061</u>

26. EQUITY

a. Share capital

Ordinary shares

	June 30, 2019	December 31, 2018	June 30, 2018
Number of shares authorized (in thousands)	<u>7,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>
Amount of shares authorized	<u>\$ 70,000,000</u>	<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>
Amount of shares issued	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>	<u>\$ 54,709,846</u>

b. Capital surplus

	June 30, 2019	December 31, 2018	June 30, 2018
Issuance of shares in excess of par value and conversion premium	\$ 315,114	\$ 315,114	\$ 552,696
Gain on sale of treasury shares held by subsidiaries	3,303	3,303	2,673
Retirement of treasury shares	33,513	33,513	-
Employee share options expired	11,747	11,747	11,747
Long-term investments	955	955	955
Bonds payable - equity component	409,978	409,978	556,567
Others	<u>466,604</u>	<u>466,604</u>	<u>85,339</u>
	<u>\$ 1,241,214</u>	<u>\$ 1,241,214</u>	<u>\$ 1,209,977</u>

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

The capital surplus arising from long-term investments, employee share options and the distribution of cash dividends to treasury share held by subsidiaries may not be used for other purposes but to offset deficits. The capital surplus arising from share options for employees and convertible bonds cannot be used.

c. Appropriation of earnings and dividend policy

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

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

1) Appropriation of earnings in 2017

The appropriation of earnings for 2017 was resolved in the shareholders' meeting on June 27, 2018.

The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 145,831	
Special reserve	118,810	
Cash dividends	1,193,670	\$0.2181820086

2) Appropriation of earnings in 2018

The appropriation of earnings for 2018 was resolved in the shareholders' meeting on June 25, 2019.

The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 114,493	
Cash dividends	1,136,278	\$0.20960737

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	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance on January 1, 2018	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (107,641)
Adjustments on initial application of IFRS 9	-	(1,774)	42,351	74,429	(74,429)	40,577
Balance on January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	31,961	-	-	-	-	31,961
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	73,629	73,629
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	31,467	31,467
Unrealized gain on financial assets at fair value through other comprehensive income	-	-	18,438	-	-	18,438
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	(6,257)	-	(2,154)	-	(25,191)	(33,602)
Other comprehensive income recognized in the period	26,902	-	15,075	-	82,435	124,412
Transfers of initial carrying amount of hedged items	-	-	-	-	37,116	37,116
Balance on June 30, 2018	<u>\$ (8,084)</u>	<u>\$ -</u>	<u>\$ 57,426</u>	<u>\$ -</u>	<u>\$ 45,122</u>	<u>\$ 94,464</u>
Balance on January 1, 2019	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	24,322	-	-	-	-	24,322
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	(347,505)	(347,505)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	(10,755)	(10,755)
Unrealized gain on financial assets at fair value through other comprehensive income	-	-	(2,065)	-	-	(2,065)
Effects of income tax	(4,616)	-	851	-	72,458	68,693
Other comprehensive income recognized in the period	19,706	-	(1,214)	-	(285,802)	(267,310)
Disposal of subsidiaries	8,368	-	105	-	-	8,473
Balance on June 30, 2019	<u>\$ 18,410</u>	<u>\$ -</u>	<u>\$ 41,510</u>	<u>\$ -</u>	<u>\$ (260,534)</u>	<u>\$ (200,614)</u>

e. Non-controlling interests

	For the Six Months Ended June 30	
	2019	2018
Beginning balance	\$ 2,965,512	\$ 2,134,282
Net income attributable to non-controlling interests	248,697	213,824
Exchange differences on translating foreign operations	1,724	1,664
Gain/(loss) on hedging instruments	92	109
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	<u>(68)</u>	<u>(11)</u>
	<u>1,748</u>	<u>1,762</u>
Acquisition of non-controlling interests in subsidiaries	(24,957)	-
Non-controlling interests arising from acquisition of subsidiaries	-	565,888
Dividends paid by subsidiaries	<u>(416,438)</u>	<u>(171,019)</u>
Ending balance	<u>\$ 2,774,562</u>	<u>\$ 2,744,737</u>

f. Treasury shares

Treasury shares are the Company's share held by its subsidiaries as of June 30, 2019 and 2018 and are as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year	Number of Shares, End of Year
<u>Six months ended June 30, 2018</u>			
Company's shares held by its subsidiaries reclassified from investments in shares of ordinary shares to treasury share	<u>2,889</u>	<u>-</u>	<u>2,889</u>
<u>Six months ended June 30, 2019</u>			
Company's shares held by its subsidiaries reclassified from investments in shares of ordinary shares to treasury share	<u>2,889</u>	<u>-</u>	<u>2,889</u>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>June 30, 2019</u>			
Mandarin Airlines	2,075	\$ 20,414	\$ 20,414
Dynasty Aerotech International Corp.	814	<u>8,011</u>	<u>8,011</u>
		<u>\$ 28,425</u>	<u>\$ 28,425</u>

(Continued)

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2018</u>			
Mandarin Airlines	2,075	\$ 22,821	\$ 22,821
Dynasty Aerotech International Corp.	814	<u>8,956</u>	<u>8,956</u>
		<u>\$ 31,777</u>	<u>\$ 31,777</u>
<u>June 30, 2018</u>			
Mandarin Airlines	2,075	\$ 19,750	\$ 19,750
Dynasty Aerotech International Corp.	814	<u>7,751</u>	<u>7,751</u>
		<u>\$ 27,501</u>	<u>\$ 27,501</u> (Concluded)

The above acquisitions by subsidiaries of the Company's shares in previous years was due to investment planning.

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

To maintain the Company's credit standing and shareholders' rights and interests, the board of directors decided to buy back shares of the Company from Taiwan Stock Exchange at a price from \$9 to \$14 per share. The expected period of purchase is from August 10, 2018 to October 9, 2018. As of 50,000 thousand shares had been repurchased. The treasury shares held by the Company has retired on December 18, 2018, share capital decreases \$500,000 thousand, additional paid-in capital in excess of par-ordinary share decreases \$2,906 thousand and additional paid-in capital - treasury share increases \$33,513 thousand. Under the Securities Exchange Act, the treasury shares held by the Company cannot be pledged and are not entitled to dividends distribution and voting rights, etc.

27. NET INCOME

a. Revenue

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Passenger	\$ 28,206,142	\$ 26,430,861	\$ 55,456,289	\$ 53,180,203
Cargo	10,956,320	11,661,833	21,118,018	21,843,488
Others	<u>3,729,850</u>	<u>3,183,141</u>	<u>6,723,353</u>	<u>5,987,171</u>
	<u>\$ 42,892,312</u>	<u>\$ 41,275,835</u>	<u>\$ 83,297,660</u>	<u>\$ 81,010,862</u>

Refer to Note 23 for the balance of contract liabilities related to customer contracts.

b. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Interest income	\$ 97,475	\$ 81,902	\$ 194,430	\$ 141,518
Dividend income	-	7,705	6,700	7,705
Others	<u>75,148</u>	<u>66,692</u>	<u>124,749</u>	<u>139,301</u>
	<u>\$ 172,623</u>	<u>\$ 156,299</u>	<u>\$ 325,879</u>	<u>\$ 288,524</u>

c. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Gain on disposal of property, plant and equipment	\$ 4,109	\$ (4,638)	\$ 5,458	\$ (282,959)
Gain (loss) on disposal of noncurrent assets held for sale	-	(244,702)	(10,462)	(368,992)
Net gain (loss) on financial assets classified as held for sale	11,902	6,297	23,042	9,163
Loss on disposal of investments	-	-	7,656	456,426
Gain or loss on foreign exchange, net	(119,984)	17,752	(146,884)	37,343
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	-	(10,812)	-	(60,812)
Others	<u>(66,461)</u>	<u>(62,865)</u>	<u>(115,685)</u>	<u>(147,839)</u>
	<u>\$ (170,434)</u>	<u>\$ (298,968)</u>	<u>\$ (236,875)</u>	<u>\$ (357,670)</u>

d. Finance costs

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Interest expense				
Bonds payable	\$ 106,316	\$ 103,703	\$ 200,991	\$ 196,362
Bank loans	207,333	240,586	427,084	456,523
Interest on obligations under financial leases	-	6,220	-	13,176
Interest on lease liabilities	<u>530,768</u>	<u>-</u>	<u>1,092,173</u>	<u>-</u>
	<u>\$ 844,417</u>	<u>\$ 350,509</u>	<u>\$ 1,720,248</u>	<u>\$ 666,061</u>
Capitalization rate	1.273%- 1.337%	1.16%- 1.21%	1.250%- 1.337%	1.16%- 1.31%
Capitalization interest	<u>\$ 1,310</u>	<u>\$ 11,071</u>	<u>\$ 2,381</u>	<u>\$ 29,842</u>

e. Depreciation and amortization expenses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Property, plant, equipment	\$ 5,364,344	\$ 4,748,314	\$ 10,664,187	\$ 9,538,113
Right of use assets	2,919,622	-	5,826,055	-
Investment properties	70	70	140	140
Intangible assets	<u>51,691</u>	<u>42,025</u>	<u>101,533</u>	<u>92,484</u>
Depreciation and amortization expenses	<u>\$ 8,335,727</u>	<u>\$ 4,790,409</u>	<u>\$ 16,591,915</u>	<u>\$ 9,630,737</u>
An analysis of depreciation by function				
Operating costs	\$ 7,931,615	\$ 4,524,078	\$ 15,683,520	\$ 9,091,497
Operating expenses	<u>352,421</u>	<u>224,306</u>	<u>806,862</u>	<u>446,756</u>
	<u>\$ 8,284,036</u>	<u>\$ 4,748,384</u>	<u>\$ 16,490,382</u>	<u>\$ 9,538,253</u>
An analysis of amortization by function				
Operating costs	\$ 3,167	\$ 3,168	\$ 6,333	\$ 4,319
Operating expenses	<u>48,524</u>	<u>38,857</u>	<u>95,200</u>	<u>88,165</u>
	<u>\$ 51,691</u>	<u>\$ 42,025</u>	<u>\$ 101,533</u>	<u>\$ 92,484</u>

f. Employment benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Post-employment benefits				
Defined contribution plans	\$ 141,414	\$ 138,604	\$ 282,253	\$ 268,202
Defined benefit plans	<u>364,015</u>	<u>368,417</u>	<u>716,610</u>	<u>735,061</u>
	<u>\$ 505,429</u>	<u>\$ 507,021</u>	<u>\$ 998,863</u>	<u>\$ 1,003,263</u>
Other employee benefits				
Salary expenses	\$ 5,172,756	\$ 5,191,756	\$ 10,446,358	\$ 10,316,958
Personnel service expenses	<u>1,693,221</u>	<u>1,371,161</u>	<u>3,412,551</u>	<u>2,905,802</u>
	<u>\$ 6,865,977</u>	<u>\$ 6,562,917</u>	<u>\$ 13,858,909</u>	<u>\$ 13,222,760</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 6,094,292	\$ 5,857,154	\$ 12,137,935	\$ 11,730,492
Operating expenses	<u>1,277,114</u>	<u>1,212,784</u>	<u>2,719,837</u>	<u>2,495,531</u>
	<u>\$ 7,371,406</u>	<u>\$ 7,069,938</u>	<u>\$ 14,857,772</u>	<u>\$ 14,226,023</u>

To be in compliance with the Company Act as amended, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the six months ended June 30, 2018, the employees' compensation was \$68,807 thousand of the base net profit. For the three months ended June 30, 2018, the employees' compensation was \$57,471 thousand. For the three months ended June 30, 2019 and the six months ended June 30, 2019, the Company has experienced a deficit, and therefore, no employees' compensation is estimated.

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

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

28. INCOME TAX

a. Income tax expense recognized in profit or loss

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Current tax				
Current year	\$ 169,869	\$ 80,100	\$ 317,904	\$ 123,489
Prior year adjustments	532	2,141	532	4,866
Deferred tax				
Current year	(61,324)	73,039	(20,122)	1,000,100
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-	-	(904,558)
Income tax expense recognized in profit or loss	\$ 109,077	\$ 155,280	\$ 298,314	\$ 223,897

In February 2018, it was announced that the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate has been adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to unappropriated earnings has been reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ (1,392)	\$ (12,814)	\$ (4,616)	\$ (6,257)
Fair value changes of financial assets at FVTOCI	4,275	(3,403)	851	(2,154)
Fair value revaluation of hedging instruments for cash flow hedging	47,191	(25,934)	72,458	(25,191)
Effect of change in tax rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,519</u>
Total income tax recognized in other comprehensive income	<u>\$ 50,074</u>	<u>\$ (42,151)</u>	<u>\$ 68,693</u>	<u>\$ (31,083)</u>

c. Income tax assessments

Income tax returns for 2017 of the Company and its subsidiaries have been examined by the tax authorities.

29. EARNINGS (LOSSES) PER SHARE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Basic earnings (losses) per share	<u>\$ (0.08)</u>	<u>\$ 0.01</u>	<u>\$ (0.13)</u>	<u>\$ 0.03</u>
Diluted earnings (losses) per share	<u>\$ (0.08)</u>	<u>\$ 0.01</u>	<u>\$ (0.13)</u>	<u>\$ 0.03</u>
Earnings (losses) used in the computation of basic earnings per share	\$ (442,759)	\$ 63,442	\$ (686,463)	\$ 188,934
Weighted average number of ordinary shares in computation of basic earnings (losses) per share	5,418,096	5,468,096	5,418,096	5,468,096
Effects of potentially dilutive ordinary shares:				
Employees' compensation or bonuses issued to employees	<u>-</u>	<u>6,037</u>	<u>-</u>	<u>15,570</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (losses) per share	<u>5,418,096</u>	<u>5,474,133</u>	<u>5,418,096</u>	<u>5,483,666</u>

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

30. BUSINESS COMBINATIONS

As stated in Note 13, the other disclosures of the Group's acquisition of Kaohsiung Catering on March 7, 2018 are as follows:

- a. Acquisition-related cash amounting to \$243,743 thousand.
- b. Assets acquired and liabilities assumed at the date of acquisition.

Assets	
Current assets (included cash and cash equivalents of \$380,512)	\$ 918,033
Property, plant and equipment	553,390
Intangible assets	186,883
Other assets	<u>49,479</u>
Total assets	1,707,785
Liabilities	<u>(486,356)</u>
Identifiable net assets	<u>\$ 1,221,429</u>

- c. The Company acquired the control of Kaohsiung Catering (the date of acquisition), and the 35.78% equity held by the equity method was remeasured at the fair value of the acquisition date and the difference recognized in gain on disposal of investment is \$69,671 thousand.
- d. The non-controlling interest of Kaohsiung Catering (46.33% of equity) was valued \$565,888 thousand at the fair value of the identifiable net assets attributed to the non-controlling interests on the date of acquisition.
- e. The bargain purchase benefit of \$26,615 thousand of Kaohsiung Catering (the date of acquisition) was measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
- f. Impact of acquisitions of the Group

From the acquisition date, the operating results from the acquired company, which are included in the consolidated statements of comprehensive income, are as follows:

	Kaohsiung Catering
Revenue	<u>\$ 707,494</u>
Profit	<u>\$ 89,530</u>

Had these business combinations been in effect at the beginning of the annual reporting period, the Group's revenue from continuing operations would have been \$81,338,357 thousand and the profit from continuing operations would have been \$440,233 thousand for the six months ended June 30, 2019. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

On January 21, 2019, the board of directors of the Company decided to sell part of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. for disposal price of \$34,036 thousand and a disposition of \$7,656 thousand. After the disposal, the proportion of ownership decrease from 51% to 20%, loss control to the subsidiary.

a. Consideration received from disposals

Consideration received in cash and cash equivalents	<u>\$ 34,036</u>
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b. Analysis of assets and liabilities on the date control was lost

Current assets	
Cash and cash equivalents	\$ 51,449
Other current assets	47,510
Non-current assets	17,035
Current liabilities	(49,742)
Non-current liabilities	<u>(15,318)</u>
Net assets disposed of	<u>\$ 50,934</u>

c. Gain on disposals of subsidiaries

Consideration received	\$ 34,036
Net assets disposed of	(50,934)
Fair value of equity	10,187
Non-controlling interests	24,957
Reclassification of other comprehensive income in respect of subsidiaries	<u>(10,590)</u>
Gain on disposal	<u>\$ 7,656</u>

d. Net cash inflow on disposal of subsidiaries

Consideration received in cash and cash equivalents	\$ 34,036
Less: Cash and cash equivalent balances disposed of	<u>(51,449)</u>
	<u>\$ (17,413)</u>

32. CAPITAL MANAGEMENT

The goals, policies and procedures as well as the composition of the Group's capital management are the same as those stated in Note 32 in the Group's consolidated financial statements for the year ended December 31, 2018.

33. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

Financial instruments net evaluated at fair value

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

	<u>June 30, 2019</u>		<u>December 31, 2018</u>		<u>June 30, 2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial liabilities</u>						
Bonds payable	\$ 32,012,707	\$ 32,059,708	\$ 32,919,610	\$ 31,651,865	\$ 28,366,580	\$ 28,494,399
Loans and debts	66,042,656	66,042,656	76,395,635	74,404,225	83,584,029	85,597,346

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of June 30, 2019, December 31, 2018 and June 30, 2018, the fair values of long-term debts and private bonds with fixed interest rates were estimated at the present value of expected cash flows discounted at rates of 0.67%, 0.68% and 0.70%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bonds payable were the same as identical liabilities trading on the over-the-counter exchange and were based on quoted market prices (Level 1).

b. Financial instruments evaluated at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- 1) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

June 30, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Domestic money market funds	\$ 274,254	\$ -	\$ -	\$ 274,254
Derivative instruments	<u>-</u>	<u>5,447</u>	<u>-</u>	<u>5,447</u>
	<u>\$ 274,254</u>	<u>\$ 5,447</u>	<u>\$ -</u>	<u>\$ 279,701</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 23,937	\$ 23,937
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>106,669</u>	<u>106,669</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,606</u>	<u>\$ 130,606</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 32,327</u>	<u>\$ 6,245</u>	<u>\$ 38,572</u>
Derivative financial liabilities for hedging	<u>\$ -</u>	<u>\$ 39,373,445</u>	<u>\$ 466</u>	<u>\$ 39,373,911</u> (Concluded)

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	<u>\$ 206,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,001</u>
Financial assets at FVTPL				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 21,746	\$ 21,746
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>110,445</u>	<u>110,445</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,191</u>	<u>\$ 132,191</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 221</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 28,005</u>	<u>\$ 4,901</u>	<u>\$ 32,906</u>
Derivative financial liabilities for hedging	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ -</u>	<u>\$ 560</u>

June 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ <u>456,278</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>456,278</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 25,743	\$ 25,743
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>124,237</u>	<u>124,237</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,980</u>	<u>\$ 149,980</u>
Financial liabilities at FVTPL				
Derivative instruments	\$ <u>-</u>	\$ <u>2,453</u>	\$ <u>-</u>	\$ <u>2,453</u>
Derivative financial assets for hedging	\$ <u>-</u>	\$ <u>55,528</u>	\$ <u>865</u>	\$ <u>56,393</u>
Derivative financial liabilities for hedging	\$ <u>-</u>	\$ <u>3,078</u>	\$ <u>-</u>	\$ <u>3,078</u>

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

4) Valuation techniques and inputs applied for Level 2 fair value measurement

<u>Financial Instrument</u>	<u>Valuation Techniques and Inputs</u>
Derivatives	The fair values of derivatives (except options) have been determined based on discounted cash flow analyses using interest yield curves applicable for the duration of the derivatives. The estimates and assumptions that the Group used to determine the fair values are identical to those used in the pricing of financial instruments for market participants.

5) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of foreign exchange and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuations. Changes in the implied fluctuations used in isolation would result in an increase or decrease in the fair values of the foreign exchange forward contracts and fuel options.

The domestic unlisted equity investment is based on the comparative company valuation to estimate the fair value. The main assumptions are based on the multiplier of the market price of the comparable listed company and the net value per share, which have considered the liquidity discount. The higher the multiplier or the lower the liquidity discount, the higher the fair value of the relevant financial instruments.

The multiplier and liquidity discount of Level 3 financial instruments are as follows:

	Multiplier	Liquidity Discount
June 30, 2019	0.74-15.29	80%
December 31, 2018	0.74-15.29	80%
June 30, 2018	0.85-18.68	80%

The movements of Level 3 financial instruments are as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1, 2019	\$ 4,901	\$ 132,191
Recognized in other comprehensive income	<u>878</u>	<u>(1,585)</u>
Balance at June 30, 2019	<u>\$ 5,779</u>	<u>\$ 130,606</u>
Balance at January 1, 2018	\$ -	\$ 84,075
Adjustments on initial application of IFRS 9	-	47,510
Other comprehensive income recognized during the period	<u>865</u>	<u>18,395</u>
Balance at June 30, 2018	<u>\$ 865</u>	<u>\$ 149,980</u>

Because some financial instruments and nonfinancial instruments may not have their fair values disclosed, the total fair value disclosed herein is not the total value of the Group's collective instruments.

c. Categories of financial instruments

	June 30, 2019	December 31, 2018	June 30, 2018
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 279,701	\$ 206,001	\$ 456,278
Derivative financial assets for hedging	38,572	32,906	56,393
Financial assets at amortized cost (Note 1)	36,997,307	40,496,618	37,303,075
Financial assets at FVTOCI	130,606	132,191	149,980
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	-	221	2,453
Derivative financial liabilities for hedging	39,373,911	560	3,078
Financial liabilities at amortized cost (Note 2)	123,848,566	127,271,892	138,351,437

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

Note 2: The balance of financial liabilities measured at amortized cost comprised short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, provisions, parts of other current liabilities, parts of other noncurrent liabilities and guarantee deposits.

d. Financial risk management objectives and policies

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

In addition, the Group has a risk committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging percentage. This committee informs the Group of global economic and financial conditions, controls the entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax losses and increase in pre-tax other comprehensive income gain and losses for the six months ended June 30, 2019 of \$773,362 thousand and \$1,216,486 thousand and a decrease in pre-tax profit and decrease in pre-tax other comprehensive income gain and loss for the six months ended June 30, 2018 of \$32,248 thousand and \$73,594 thousand, respectively.

The Group’s hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure of its foreign currency denominated receipts and payments and to manage exchange rate exposure of its aircraft prepayments in the next year. Those transactions are designated as cash flow hedges. When forecasted purchases actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable aircraft prepayments, as the critical terms (i.e. the notional amount, useful life and underlying asset) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of the effectiveness, and it is expected that the value of the foreign exchange forward contracts and the value of the corresponding hedged items will systematically change in the opposite direction in response to movements in the underlying exchange rates.

The following table summarizes the information relating to the hedges of foreign currency risk.

June 30, 2019

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge Aircraft rentals - forward exchange contracts	NT\$/US\$	NT\$1,591,584/ US\$51,249	2019.7.8- 2020.6.8	29.7-31.3	Financial assets for hedging/liabilities for hedging	\$ 32,327	\$ 2,794

The above hedging instruments are continuously applied to hedging accounting. The book value of other equity which belongs to each hedging items (aircraft rentals in U.S. dollar) are \$29,533 thousand.

December 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge Aircraft rentals - forward exchange contracts	NT\$/US\$	NT\$2,265,231/ US\$13,620	2019.1.7- 2019.12.26	28.3-30.9	Financial assets for hedging/liabilities for hedging	\$ 28,005	\$ 560

The above hedging instruments are continuously applied to hedging accounting. The book value of other equity which belongs to each hedging items (aircraft rentals in U.S. dollar) are \$27,445 thousand.

June 30, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge Aircraft rentals - forward exchange contracts	NT\$/US\$	NT\$1,664,451/ US\$54,594	2018.7.5- 2019.6.21	28.3-31.2	Financial assets for hedging - current/liabilities for hedging - current	\$ 36,918	\$ -
					Financial assets for hedging - non-current/ liabilities for hedging - non-current	-	3,078
Aircraft prepayment - forward exchange contracts	NT\$/US\$	NT\$579,268/ US\$19,000	2018.10.15	28.8-30.2	Financial assets for hedging/liabilities for hedging	18,610	-

The above hedging instruments are continuously applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in U.S. dollar and Aircraft prepayment) are \$33,840 thousand and \$18,610 thousand, respectively.

For the six months ended June 30, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	<u>\$ 2,087</u>	<u>\$ 36,961</u>	(Note)

Note: Decrease in operating costs or foreign exchange loss.

For the three months ended June 30, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	<u>\$ 2,989</u>	\$ 19,872	(Note)

Note: Decrease in operating costs or foreign exchange loss.

For the six months ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ 86,833	\$ (34,378)	(Note)
Aircraft prepayments	<u>17,496</u>	<u>-</u>	
	<u>\$ 104,329</u>	<u>\$ (34,378)</u>	

Note: Increase in operating costs.

For the three months ended June 30, 2018

Comprehensive Income	Hedging Gains (Losses) Recognized in OCI	Amount Reclassified to P/L and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ 104,946	\$ (55,880)	(Note)
Aircraft prepayment	<u>54,057</u>	<u>-</u>	
	<u>\$ 159,003</u>	<u>\$ (55,880)</u>	

Note: Increase in operating costs.

The amount of gains and losses on hedging instruments for the six months ended June 30, 2018 reclassified from profit or loss to prepayments for equipment was \$37,116 thousand.

And the amount of gains and losses on hedging instruments for the three months ended June 30, 2018 reclassified from profit or loss to prepayments for equipment was \$(7,039) thousand.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts.

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

	June 30, 2019	December 31, 2018	June 30, 2018
Fair value interest rate risk			
Financial liabilities	\$ 80,432,067	\$ 34,919,610	\$ 30,816,542
Cash flow interest rate risk			
Financial liabilities	90,753,529	75,031,978	82,387,031

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A one yard (25 basis) point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates increased one yard (25 basis) points and had all other variables been held constant, the Group's pretax profit for the six months ended June 30, 2019 would have decreased by \$113,442 thousand.

Had interest rates increased one yard (25 basis) point and had all other variables been held constant, the Group's pretax profit for the six months ended June 30, 2018 would have decreased by \$102,984 thousand.

c) Other price risk

The Group was exposed to fuel price risk on its purchase of aviation fuel. The Group enters into fuel swaps contract to hedge against adverse risks on fuel price changes.

June 30, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	US\$	NT\$5,779	2019.9.30-2020.3.31	US\$55-US\$82.5	Financial assets for hedging - current/liabilities for hedging - current	\$ 6,245	\$ 466

The above hedging instruments are continuously applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$5,779 thousand.

December 31, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	US\$	NT\$4,901	2019.1.31-2019.12.31	US\$72-US\$88	Financial assets for hedging - current	\$ 4,901	\$ -

The above hedging instruments are continuously applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$4,901 thousand.

June 30, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	US\$	NT\$865	2018.6.30-2018.9.30	US\$79.95-US\$95.00	Financial assets for hedging	\$ 865	\$ -

The above hedging instruments are continuously applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$865 thousand.

For the six months ended June 30, 2019

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Comprehensive Income		
Cash flow hedges - fuel options	\$ 878	\$ (7,092) (Note)

Note: Increasing in operating costs.

For the three months ended June 30, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	\$ (1,143)	\$ (6,165)	(Note)

Note: Increasing in operating costs.

For the six months ended June 30, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	\$ 865	\$ 2,922	(Note)

Note: Increasing in operating costs.

For the three months ended June 30, 2018

Comprehensive Income	Hedging Gains (Losses) Recognized in OCI	Amount Reclassified to P/L and the Adjusted Line Item	
Cash flow hedge - fuel option	\$ (1,136)	\$ 2,922	(Note)

Note: Increase in operating costs.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to fuel price risks at the end of the reporting period.

	For the Six Months Ended June 30			
	2019		2018	
	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%	\$ -	\$ -	\$ -	\$ -
Fuel price decrease 5%	-	-	-	-

2) Credit risk

The goal, policies and procedure of credit risk management are same as consolidated financial statement in 2018. Related illustration can be referred in Note 33.

3) Liquidity risk

The objectives, policies and procedures of liquidity risk management are same as consolidated financial statement in 2018. Related illustration can be referred in Note 33.

Liquidity and interest risk rate table

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

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

June 30, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	0.7958	\$ 5,766,579	\$ 22,486,711	\$ 10,420,218
Floating interest rate liabilities	1.2842	9,881,052	39,337,815	17,849,433
Hedging instruments	-	7,310,026	29,380,226	7,022,822
Bonds payable	1.1431	<u>6,772,030</u>	<u>19,201,464</u>	<u>4,551,438</u>
		<u>\$ 29,729,687</u>	<u>\$ 110,406,216</u>	<u>\$ 39,843,911</u>

December 31, 2018

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	1.3104	\$ 641,524	\$ 3,024	\$ -
Floating interest rate liabilities	1.8105	14,853,360	42,143,959	20,810,464
Fixed interest rate liabilities	0.1034	2,000,517	-	-
Hedging instruments	-	239,138	-	-
Bonds payable	1.3905	<u>5,999,321</u>	<u>30,835,449</u>	<u>1,051,418</u>
		<u>\$ 23,733,860</u>	<u>\$ 72,982,432</u>	<u>\$ 21,861,882</u>

June 30, 2018

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	1.0680	\$ 783,496	\$ 21,833	\$ -
Floating interest rate liabilities	1.0849	24,048,845	73,974,023	14,865,012
Fixed interest rate liabilities	1.0680	2,005,900	-	-
Hedging instruments	-	3,078	-	-
Bonds payable	1.3907	<u>4,523,615</u>	<u>21,077,898</u>	<u>1,013,907</u>
		<u>\$ 31,364,934</u>	<u>\$ 95,073,743</u>	<u>\$ 15,878,919</u>

34. TRANSACTIONS WITH RELATED PARTIES

The balances and transactions between the Company and its subsidiaries, which are related parties of the Company, including remaining account balances, revenue and expense, have been eliminated upon consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details between the Group and other related parties are disclosed as follows:

a. Related party' name and relationships

<u>Related Party Name</u>	<u>Relationship with the Company</u>
Kaohsiung Catering Services	Associate (become subsidiary in March 2018)
Asian Compressor Technology Services	Associate (disposal in January 2018)
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate

(Continued)

Related Party Name	Relationship with the Company
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
Dynasty Holidays	Associate (become associate in January 2019)
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
Nordam Asia Ltd.	Joint venture investment
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relatives

(Concluded)

b. Operating income

Account Items	Related Party Type	For the Three Months Ended June 30		For the Six Months Ended June 30	
		2019	2018	2019	2018
Other income	Major shareholders of the Company	\$ 5,843	\$ 7,921	\$ 10,968	\$ 18,508
	Associate	\$ 13	\$ 182	\$ 39	\$ 248
	Joint venture investment	\$ 10,601	\$ 10,659	\$ 21,246	\$ 21,404

c. Purchases of goods

Related Party Type	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Major shareholders of the Company	\$ 12,458	\$ 17,659	\$ 23,782	\$ 41,524
Associate	\$ 85,604	\$ 103,333	\$ 192,845	\$ 275,433
Joint venture investment	\$ 482,524	\$ 479,129	\$ 940,207	\$ 962,817

d. Accounts receivable - related parties (generated by operations)

Related Party Type	June 30, 2019	December 31, 2018	June 30, 2018
Major shareholders of the Company	\$ 2,519	\$ 1,454	\$ 2,471
Joint venture investment	7,819	7,589	5,943
	<u>\$ 10,338</u>	<u>\$ 9,043</u>	<u>\$ 8,414</u>

The receivables are not guaranteed, and there is no allowance for doubtful accounts related to accounts receivable - related parties. The payment periods of such accounts were within 30 to 90 days, and there are no overdue payments.

e. Accounts payable - related parties (generated by operations)

Related Party Type	June 30, 2019	December 31, 2018	June 30, 2018
Major shareholder of the Company	\$ 5,762	\$ 3,368	\$ 5,717
Associate	46,288	54,948	52,485
Joint venture investment	<u>489,915</u>	<u>474,499</u>	<u>481,686</u>
	<u>\$ 541,965</u>	<u>\$ 532,815</u>	<u>\$ 539,888</u>

The remaining balance of notes and accounts payable - related parties will be paid in cash if they are not secured.

f. Lease arrangements

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, and the Company paid the rental based on usage hours. As of June 30, 2019 and 2018, the Company paid rentals of \$23,782 thousand and \$41,524 thousand, respectively; for the three months ended June 30, 2019 and 2018, the Company's paid rentals amounted to \$12,458 thousand and \$17,659 thousand.

g. Endorsements and guarantees

	June 30, 2019		December 31, 2018		June 30, 2018	
	Authorized Amount	Amount Used	Authorized Amount	Amount Used	Authorized Amount	Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 2,234,550	\$ 3,850,000	\$ 2,339,700	\$ 3,850,000	\$ 2,744,850
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	-	1,080,000	-
Tigerair Taiwan Co., Ltd.	1,089,966	422,390	1,081,792	418,491	1,073,768	414,663
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	2,000,000	1,022,277	2,000,000	605,547	2,000,000	-

h. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 9,018	\$ 10,368	\$ 22,637	\$ 25,137
Post-employment benefits	<u>399</u>	<u>789</u>	<u>1,274</u>	<u>1,719</u>
	<u>\$ 9,417</u>	<u>\$ 11,157</u>	<u>\$ 23,911</u>	<u>\$ 26,856</u>

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

35. PLEDGED ASSETS

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

	June 30, 2019	December 31, 2018	June 30, 2018
Property, plant and equipment	\$ 37,242,967	\$ 42,066,242	\$ 43,976,919
Right-of-use asset	72,742,812	-	-
Restricted assets	<u>120,056</u>	<u>118,764</u>	<u>256,653</u>
	<u>\$ 110,105,835</u>	<u>\$ 42,185,006</u>	<u>\$ 44,233,572</u>

36. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2019, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

- a. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract with AVIONS DE TRANSPORT REGIONAL G.I.E to purchase six ATR72-600 aircraft, and the total list price of the six aircraft was \$120,000 thousand. The expected delivery period ranges from July 2018 to June 2020. As of June 30, 2019, four of the aircraft has been handed over to the company, and the total list price of the lefts two aircraft was \$40,000 thousand, which has been paid in the amount of US\$2,078 thousand (recognized as prepayments for aircraft).
- b. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

However, TACT filed an arbitration for the total amount of \$6,840,000 thousand based on the construction contract.

As of June 30, 2019, TACT had signed the following construction contracts with unrelated parties:

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	\$ 552,285

As of June 30, 2019, the cumulated consultant service expense and construction equipment had amounted to \$481,776 thousand (VAT included) and \$5,170,332 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$468,755 thousand (VAT included) and \$5,156,356 thousand (VAT included) were reclassified to property, plant and equipment. The remaining cumulative payments were recognized under construction in progress.

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

TACT should pay royalties to Taoyuan Airport Corporation and the CAA during the chartered operation period. The calculation is based on annual sales (including operating and nonoperating revenue but excluding the rental revenue from specific districts), and Taoyuan Airport Corporation and the CAA have the option to adjust the royalty rates every 3 years starting from the date of transfer of the chartered operation rights on the basis of actual revenue and expenditures. The current royalty rate is 6%.

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

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

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

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

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

- d. Taiwan Aircraft Maintenance Company contracted out Ronggong Engineering Co., Ltd. for a construction repair project. The contract expiration date is March 5, 2019, and the estimated total cost of the project is \$1.980 billion. As of June 30, 2019, \$1,807,171 thousand was paid (recognized as construction in progress).
- e. The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike on February 8, 2019, and the flights resumed normal operation on February 14, 2019. A total of 214 flights was cancelled and the accumulated revenue loss was about \$500 million. The initial estimated compensation for customer losses and other expenditures were about \$54 million (recognized as operating cost).
- f. In June 2019, the Company signed a contract with Airbus S.A.S. to purchase fourteen A321neo aircraft and an option to purchase five A321neo aircraft. The total list price of the fourteen aircraft is \$2,131,707 thousand, and the list price of the option to purchase five aircraft is \$769,922 thousand. The expected delivery period of the fourteen aircraft ranges from 2024 to June 2026. As of June 30, 2019, the list price of the fourteen aircraft has been paid in the amount of US\$1,400 thousand (recognized as prepayments for aircraft).

- g. In June 2019, the Company signed a contract with the Boeing Company to purchase three B777F aircraft and an option to purchase three B777F aircraft. The total list price of the three aircraft is \$1,118,022 thousand, and the expected delivery period of the three aircraft is in 2020. In addition, the Company reached an agreement with the Boeing Company to exercise the option to purchase three B777F aircraft in August 2019, and the total list of the three aircraft is also \$1,118,022 thousand.

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

(Foreign Currencies in Thousands)

June 30, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 425,683	31.0559 (USD:NTD)	\$ 13,219,981
EUR	16,504	35.3357 (EUR:NTD)	583,163
HKD	221,531	3.9777 (HKD:NTD)	881,173
JPY	4,897,518	0.2886 (JPY:NTD)	1,413,443
RMB	293,157	4.5188 (RMB:NTD)	1,324,713

Financial liabilities

Monetary items			
USD	2,471,781	31.0559 (USD:NTD)	76,763,374
EUR	7,043	35.3357 (EUR:NTD)	248,875
HKD	87,968	3.9777 (HKD:NTD)	349,517
JPY	6,481,054	0.2886 (JPY:NTD)	1,870,466
RMB	150,199	4.5188 (RMB:NTD)	678,716

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 533,109	30.7692 (USD:NTD)	\$ 16,403,335
EUR	20,519	35.2113 (EUR:NTD)	722,514
HKD	302,930	3.9231 (HKD:NTD)	1,188,425
JPY	6,479,942	0.2778 (JPY:NTD)	1,800,967
RMB	394,503	4.4803 (RMB:NTD)	1,767,491
(Continued)			

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 391,865	30.7692 (USD:NTD)	\$ 12,057,386
EUR	6,516	35.2113 (EUR:NTD)	229,440
HKD	79,716	3.9231 (HKD:NTD)	310,978
JPY	5,586,337	0.2778 (JPY:NTD)	1,552,067
RMB	150,529	4.4803 (RMB:NTD)	674,413
			(Concluded)

June 30, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 410,813	30.4878 (USD:NTD)	\$ 12,524,797
EUR	17,541	35.4610 (EUR:NTD)	622,005
HKD	245,821	3.8865 (HKD:NTD)	955,382
JPY	6,036,963	0.2755 (JPY:NTD)	1,663,167
RMB	539,664	4.5998 (RMB:NTD)	2,482,348

Financial liabilities

Monetary items			
USD	382,065	30.4878 (USD:NTD)	11,648,331
EUR	6,195	35.4610 (EUR:NTD)	219,694
HKD	85,155	3.8865 (HKD:NTD)	330,956
JPY	5,292,499	0.2755 (JPY:NTD)	1,458,071
RMB	159,005	4.5998 (RMB:NTD)	731,391

For the three months ended June 30, 2019 and 2018, net foreign exchange gains and (losses) were \$(119,984) thousand and \$17,752 thousand, respectively; and for the six months ended June 30, 2019 and 2018, net foreign exchange gains (losses) were \$(146,884) thousand and \$37,343 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

38. 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) Endorsements/guarantees provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 5) Acquisitions of individual real estate at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 6) Disposals of individual real estate at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
 - 9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 5 (attached)
 - 10) Trading in derivative instruments (Notes 7 and 33)
- b. Investments in mainland China: Table 6 (attached)
- c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 7 (attached)

39. SEGMENT INFORMATION

Segment Information

The Group mainly engages in air transportation services for passengers, cargo and others. Its major revenue-generating asset is its aircraft fleet, which is used jointly for passenger and cargo services. Thus, the Group's sole reportable segment is its flight segment. For operating segment reporting in the consolidated financial statements, the reportable segment of the Group and its subsidiaries comprises the flight and the non-flight business departments. The accounting policies applied for reportable segments are consistent with the policies aforementioned in Note 4.

For the six months ended June 30, 2019 and 2018, financial information of segments is listed below:

	For the Six Months Ended June 30, 2019			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 81,335,439</u>	<u>\$ 5,426,472</u>	<u>\$ (3,464,251)</u>	<u>\$ 83,297,660</u>
Operating profit and loss	<u>\$ 642,017</u>	<u>\$ 735,562</u>	<u>\$ (43,586)</u>	\$ 1,333,993
Interest revenue				194,430
Investment income accounted for using the equity method				157,799
Revenue				174,038
Finance costs				(1,720,248)
Expenses				<u>(279,464)</u>
Loss before income tax				<u>\$ (139,452)</u>
Identifiable assets	<u>\$ 149,065,429</u>	<u>\$ 11,191,249</u>	<u>\$ -</u>	\$ 160,256,678
Investments accounted for using the equity method				2,367,567
Assets				<u>130,497,302</u>
Total assets				<u>\$ 293,121,547</u>
	For the Six Months Ended June 30, 2018			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 79,672,973</u>	<u>\$ 4,909,554</u>	<u>\$ (3,571,665)</u>	<u>\$ 81,010,862</u>
Operating profit and loss	<u>\$ 550,892</u>	<u>\$ 657,289</u>	<u>\$ (10,138)</u>	\$ 1,198,043
Interest revenue				141,518
Investment income accounted for using the equity method				163,819
Revenue				(5,730)
Finance costs				(666,061)
Expenses				<u>(204,934)</u>
Gain before income tax				<u>\$ 626,655</u>
Identifiable assets	<u>\$ 153,582,948</u>	<u>\$ 10,721,856</u>	<u>\$ -</u>	\$ 164,304,804
Investments accounted for using the equity method				2,349,376
Assets				<u>62,840,804</u>
Total assets				<u>\$ 229,494,984</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	\$ 10,999,999	\$ 3,850,000	\$ 3,850,000	\$ 2,234,550	\$ -	7.00	\$ 27,499,997	Yes	No	No
		Taiwan Air Cargo Terminal	54% subsidiary	10,999,999	1,080,000	1,080,000	-	-	1.96	27,499,997	Yes	No	No
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	10,999,999	1,106,778	1,089,966	422,390	-	1.98	27,499,997	Yes	No	No
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	10,999,999	2,000,000	2,000,000	1,022,277	-	3.64	27,499,997	Yes	No	No

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

JUNE 30, 2019

(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	June 30, 2019				Note
				Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines (the "Company")	<u>Shares</u> Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at fair value through other comprehensive income - noncurrent	1,359,368	\$ 59,382	13.59	\$ 65,320	Note 1
	Everest Investment Holdings Ltd. - preferred shares	-	Financial assets at fair value through other comprehensive income - noncurrent	135,937	5,938	-	-	-
	Chung Hua Express Co.	-	Financial assets at fair value through other comprehensive income - noncurrent	1,100,000	23,937	11.00	23,937	-
	Jardine Air Terminal Services	-	Financial assets at fair value through profit or loss - current	12,000,000	-	15.00	-	-
	The Grand Hi Lai Hotel	-	Financial assets at fair value through profit or loss - current	4,021	-	0.02	-	-
Mandarin Airlines	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - noncurrent	2,074,628	20,414	-	20,414	-
Cal-Asia Investment	<u>Shares</u> Taikoo (Xiamen) Landing Gear Services	-	Financial assets at fair value through profit or loss - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at fair value through other comprehensive income - noncurrent	-	41,349	5.45	41,349	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficial certificates</u> FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	252,216	45,052	-	45,052	-
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,880,060	40,156	-	40,156	-
Taiwan Airport Services	<u>Shares</u> TransAsia Airways	-	Financial assets at fair value through profit or loss - current	2,277,786	-	0.40	-	-
	<u>Beneficial certificates</u> Fuh Hwa Global Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	1,039,109	12,602	-	12,602	-
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	730,495	8,283	-	8,283	-
	Fuh Hwa Global Bond Fund	-	Financial assets at fair value through profit or loss - current	543,321	8,037	-	8,037	-
Dynasty Aerotech International Corp.	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - noncurrent	814,152	8,011	-	8,011	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2019				Note
				Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Kaohsiung Catering Services	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	\$ 4,734	-	\$ 4,734	-
	<u>Beneficiary certificates</u> Prudential Financial Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,407,832	85,390	-	85,390	-
	Prudential Financial Return Fund	-	Financial assets at fair value through profit or loss - current	4,493,628	70,000	-	70,000	-

Note 1: The subsidiary's net equity value was \$65,320 thousand for the six months ended June 30, 2019, which included ordinary shares and preference shares.

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

Note 3: The table only listed financial assets that are IFRS 9 regulated.

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2019

(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	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 205,561	0.31	30 days	\$ -	-	\$ (36,962)	(1.34)	
	Cal Park	Subsidiary	Purchase	115,644	0.17	40 days	-	-	(127)	-	
	Mandarin Airlines	Subsidiary	Sale	(1,150,256)	(1.60)	2 months	-	-	465,809	4.20	
	Mandarin Airlines	Subsidiary	Purchase	113,871	0.17	2 months	-	-	(303,195)	(11.00)	
	China Pacific Catering Services	Equity-method investee	Purchase	882,000	1.32	90 days	-	-	(469,313)	(17.03)	
	Taoyuan International Airport Service	Subsidiary	Purchase	493,410	0.74	40 days	-	-	(357,938)	(12.99)	
	Taiwan Airport Services	Subsidiary	Purchase	182,811	0.27	40 days	-	-	(76,703)	(2.78)	
	Kaohsiung Catering Services	Subsidiary	Purchase	294,014	0.44	60 days	-	-	(64,318)	(2.33)	
	Dynasty Aerotech International Corp.	Subsidiary	Purchase	169,155	0.25	2 months	-	-	(50,690)	(1.84)	
	Tigerair Taiwan Co., Ltd.	Subsidiary	Sale	(184,371)	(0.26)	1 months	-	-	41,015	0.37	
	Eastern United International Logistics (Holdings) Ltd.	Equity-method investee	Purchase	105,375	0.16	2 months	-	-	(14,708)	(0.53)	

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

JUNE 30, 2019

(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	\$ 465,809	Note	\$ -	-	\$ 456,169	\$ -
Mandarin Airlines	China Airlines	Parent company	303,195	Note	-	-	289,849	-
China Pacific Catering Services	China Airlines	Parent company	469,313	3.82	-	-	156,825	-
Taoyuan International Airport Service	China Airlines	Parent company	357,938	2.73	-	-	203,717	-

Note: Accounts receivable and revenue were not directly correlated because of the particular industry characteristics, and therefore the turnover rate was not applicable.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX MONTHS ENDED JUNE 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2019			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2019	December 31, 2018	Number of Shares	Percentage of Ownership	Carrying Amount			
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	\$ 1,500,000	\$ 1,500,000	150,000,000	100.00	\$ 1,521,629	\$ (6,514)	\$ 17,013	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,270,353	73,221	68,836	Notes 1 and 4
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,430,942	110,548	59,698	-
	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	1,297,025	18,241	18,241	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	921,127	227,391	115,970	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	725,187	169,271	82,943	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	505,002	14,716	14,716	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	376,233	104,806	98,444	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	510,687	34,543	6,909	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	272,991	81,124	38,412	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	591,803	148,338	72,336	Note 5
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	463,114	1,065	1,875	Note 4
	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	160,861	12,865	7,076	-
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	98,107	8,998	9,006	Notes 1 and 4
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	26,819	1,126	1,167	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	11,034	2,067	109	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,521	3,301	825	-
Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,648,387	180,000,000	90.00	2,232,184	469,557	422,613	Note 4	
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	1,044,783	(83,355)	(83,355)	-	
NORDAM Asia Ltd.	Taoyuan, Taiwan	Composite repair and manufacturing business	2,450	2,450	245,000	49.00	2,358	-	-	-	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	248,019	469,557	46,956	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,209	81,124	876	-
Cal-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 3,329	HK\$ 3,329	1,050,000	35.00	47,870	9,526	3,334	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	403,795	11,671	11,671	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,870	-	-	-

Note 1: Adopted the treasury share 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 shares because it is a limited company.

Note 4: Difference caused by lease arrangement between consolidated entities.

Note 5: Difference caused by acquisition.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA

FOR THE SIX MONTHS ENDED JUNE 30, 2019

(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, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of June 30, 2019	Accumulated Inward Remittance of Earnings as of June 30, 2019
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,149,932 (RMB 254,480)	Indirect (Note 1)	\$ 129,999 (US\$ 4,186)	\$ -	\$ -	\$ 129,999 (US\$ 4,186)	\$ 38,339 (RMB 8,396)	14.00	\$ 5,141 (RMB 1,175)	\$ 229,291 (RMB 50,742)	\$ 87,011 (US\$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	63,263 (RMB 14,000)	Indirect (Note 1)	60,480 (US\$ 1,947)	-	-	60,480 (US\$ 1,947)	49,071 (RMB 10,746)	14.00	6,528 (RMB 1,504)	124,399 (RMB 27,530)	27,184 (US\$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,580,435 (US\$ 83,090)	Indirect (Note 1)	66,807 (US\$ 2,151)	-	-	66,807 (US\$ 2,151)		2.59		-	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	362,205 (US\$ 11,663)	Indirect (Note 1)	19,752 (US\$ 636)	-	-	19,752 (US\$ 636)		5.45		41,349	

Accumulated Outward Remittance for Investment in Mainland China as of June 30, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$277,038 (US\$8,920)	\$671,432 (Note 3)	\$34,664,734 (Note 4)

(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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of June 30, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of June 30, 2019	Accumulated Repatriation of Investment Income as of June 30, 2019
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,149,932 (RMB 254,480)	Indirect (Note 5)	\$ 124,794 (US\$ 4,018)	\$ -	\$ -	\$ 124,794 (US\$ 4,018)	\$ 38,339 (RMB 8,396)	14.00	\$ 5,367 (RMB 1,175)	\$ 227,793 (RMB 50,411)	\$ 118,209 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	63,263 (RMB 14,000)	Indirect (Note 5)	59,837 (US\$ 1,927)	-	-	59,837 (US\$ 1,927)	49,071 (RMB 10,746)	14.00	6,870 (RMB 1,504)	124,277 (RMB 27,502)	43,683 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of June 30, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$184,631 (US\$5,945)	\$184,631 (US\$5,945)	\$45,923 (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: As of June 30, 2019, the inward remittance of earnings amounted to US\$2,801,749 and US\$875,330.

Note 3: The amount comprised US\$19,828,324, RMB4,200,000 and NT\$36,666,667.

Note 4: The limit stated in the Investment Commission’s regulation, “The Review Principle of Investment or Technical Cooperation in mainland China,” is the larger of the Company’s net asset value or 60% of the consolidated net asset value.

Note 5: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 6: The RMB and U.S. dollar amounts of assets are translated at period-end rates and those of gains (losses), at the average of the period-end rates of refer for the reporting period.

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE SIX MONTHS ENDED JUNE 30, 2019
(In Thousand New Taiwan Dollars)**

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			% to Total Consolidated Total Revenue or Assets
				Financial Statement Account	Amount	Transaction Criteria	
0	China Airlines, Ltd.	Mandarin Airlines	a	Passenger revenue	\$ 1,016,510	The same as ordinary transactions	1.22
		Mandarin Airlines	a	Other operating income	133,746	The same as ordinary transactions	0.16
		Tigerair Taiwan Ltd.	a	Other operating income	184,371	The same as ordinary transactions	0.22
		Taoyuan International Airport Service	a	Terminal and landing fees	493,410	The same as ordinary transactions	0.59
		Taiwan Airport Services	a	Terminal and landing fees	182,811	The same as ordinary transactions	0.22
		Hwa Hsia	a	Terminal and landing fees	169,155	The same as ordinary transactions	0.20
		Mandarin Airlines	a	Flight operation costs	113,871	The same as ordinary transactions	0.14
		Taiwan Air Cargo Terminal	a	Other operating cost	205,561	The same as ordinary transactions	0.25
		Cal Park	a	Other operating cost	115,644	The same as ordinary transactions	0.14
		Mandarin Airlines	a	Accounts receivable - related parties	465,809	The same as ordinary transactions	0.16
		Taoyuan International Airport Service	a	Dividends receivable	113,375	The same as ordinary transactions	0.04
		Sabre Travel Network (Taiwan)	a	Dividends receivable	176,361	The same as ordinary transactions	0.06
		Kaohsiung Catering Services	a	Dividends receivable	143,350	The same as ordinary transactions	0.05
		Taiwan Air Cargo Terminal	a	Dividends receivable	162,000	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Accounts payable - related parties	303,195	The same as ordinary transactions	0.10
		Taoyuan International Airport Services	a	Accounts payable - related parties	357,938	The same as ordinary transactions	0.12
		Mandarin Airlines	a	Bonds payable - noncurrent	250,000	The same as ordinary transactions	0.09
Kaohsiung Catering Services	a	Passenger service cost	294,014	The same as ordinary transactions	0.35		
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	205,561	The same as ordinary transactions	0.25
		China Airlines, Ltd.	b	Dividends payable	162,000	The same as ordinary transactions	0.06
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	113,871	The same as ordinary transactions	0.14
		China Airlines, Ltd.	b	Flight operation costs	1,016,510	The same as ordinary transactions	1.22
		China Airlines, Ltd.	b	Operating expense	133,746	The same as ordinary transactions	0.16
		China Airlines, Ltd.	b	Accounts receivable - related parties	303,195	The same as ordinary transactions	0.10
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Notes and accounts payable - related parties	465,809	The same as ordinary transactions	0.16
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	493,410	The same as ordinary transactions	0.59
		China Airlines, Ltd.	b	Accounts receivable - related parties	357,938	The same as ordinary transactions	0.12
		China Airlines, Ltd.	b	Dividends payable	113,375	The same as ordinary transactions	0.04
4	Taiwan Airport Services	China Airlines, Ltd.	b	Operating revenue	182,811	The same as ordinary transactions	0.22
5	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	169,155	The same as ordinary transactions	0.20

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% to Total Consolidated Total Revenue or Assets
6	Cal Park	China Airlines, Ltd.	b	Operating revenue	\$ 115,644	The same as ordinary transactions	0.14
7	Tigerair Taiwan Ltd.	China Airlines, Ltd.	b	Operating expense	184,371	The same as ordinary transactions	0.22
8	Kaohsiung Catering Services	China Airlines, Ltd.	b	Operating revenue	294,014	The same as ordinary transactions	0.35
		China Airlines, Ltd.	b	Dividends receivable	143,350	The same as ordinary transactions	0.05
9	Sabre Travel Network (Taiwan)	China Airlines, Ltd.	b	Dividends payable	176,361	The same as ordinary transactions	0.06

Note 1: Three kinds of business relationships between China Airlines, Ltd. and its subsidiaries were as follows:

- a. Parent to subsidiaries.
- b. Subsidiaries to parent.
- c. Subsidiaries to subsidiaries.

Note 2: Intercompany transactions were written off in the consolidated financial statements.

Note 3: The Company only discloses transaction amounts or balances of more than \$100,000 thousand.

(Concluded)