China Airlines, Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

____

March 20, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Airlines, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of China Airlines, Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. (collectively referred to as the "consolidated financial statements")

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the consolidated financial statements of the Group are stated below:

Passenger Revenue Recognition

In accordance with IFRS 15 "Revenue from Contracts with Customers", passenger sales are accounted for as contract liabilities before relevant transportation services are provided. After providing the related services, contract liabilities are reclassified to passenger revenue. As of December 31, 2018, passenger revenue was NT$108,345,648 thousand. Refer to Notes 4 and 28 in the accompanying consolidated financial statements for related detailed information.

Since relevant sales can only be recognized as passenger revenue when passengers actually boarded, confirmation from each passenger holding the ticket who actually boarded involves a complicated process; therefore, we identified passenger revenue recognition as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the internal control related to the process of revenue from passenger, including manual and automatic control.

2. We understood and tested the effectiveness of the information system related to the process of passenger revenue.

3. We sampled several flight tickets, which were flown and recognized as revenue, to verify whether the boarding date matched the date recorded on the tickets, from advanced sales tickets.

New Aircraft Acquisition Cost

In accordance with IAS 16 "Property, Plant and Equipment", aircraft acquisition costs were allocated into several significant components, which include airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and are depreciated over different useful lives. As of December 31, 2018, the carrying amount of flight equipment was NT$136,187,473 thousand. Refer to Notes 4, 5 and 16 to the accompanying consolidated financial statements for related detailed information.

Since the Group acquired several A350-900 brand new aircraft this year, the allocation base was adjusted. Moreover, the carrying amount related to the aircraft and the depreciation expense recognized will be subject to the allocation of acquisition costs and the estimated useful life, which were made in accordance with management's judgment. Therefore, we identified new aircraft acquisition cost as a key audit matter.

The main audit procedures that we performed included the following:

1. We reviewed the certificates issued by the aircraft and engine manufacturers, the estimated overhaul cost of the manufacturers, and the historical experience from the maintenance division to assess management's rationale to determine the allocated amount of components.

2. We conducted an assessment on the rationality of the aircraft's useful life based on aircraft performance in the industry, historical experience of aircraft operations, and documents that described the basis used by management to determine the useful life of its new aircraft.

Other Matter Audited by Other Independent Auditors

We did not audit some subsidiaries which were included in the consolidated financial statements. The financial statements and disclosed information were audited by other independent auditors, and our audit opinion is based solely on the audit report of other independent auditors.

As of December 31, 2018, total assets of these subsidiaries amounted to NT$5,864,701 thousand dollars, representing 2.55% of the combined total assets. For the year ended December 31, 2018, revenue from these subsidiaries amounted to NT$8,634,324 thousand dollars, representing 5.06% of the combined total revenue.

Other Matter Parent Company Only Financial Statements

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for 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 Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee and supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chen-Hsiu Yang and Jui-Chan Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 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 audit such consolidated financial statements are those generally applied in the Republic of China.

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 19 and 33)	$ 24,937,537	11	$ 22,585,332	10
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 33)	206,001	-	306,839	-
Financial assets at amortized cost (Notes 9 and 33)	3,856,660	2	-	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 31)	-	-	293	-
Financial assets for hedging - current (Notes 4 and 33)	32,906	-	-	-
Notes and accounts receivable, net (Notes 4, 11 and 33)	10,038,528	4	8,604,265	4
Notes and accounts receivable - related parties (Notes 31 and 33)	9,043	-	8,359	-
Other receivables (Notes 4 and 33)	879,191	-	714,413	-
Current tax assets (Notes 4 and 29)	18,948	-	32,487	-
Inventories, net (Notes 4 and 12)	8,654,710	4	8,731,755	4
Non-current assets held for sale (Notes 4, 5 and 13)	46,154	-	426,553	-
Other assets - current (Notes 6 and 19)	4,147,882	2	6,001,538	3
Total current assets	52,827,560	23	47,411,834	21
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 33)	132,191	-	-	-
Financial assets measured at cost - non-current, net of current portion (Notes 3, 10 and 33)	-	-	84,075	-
Investments accounted for using the equity method (Notes 4 and 15)	2,200,149	1	2,507,346	1
Property, plant and equipment (Notes 4, 5, 16 and 35)	163,107,718	71	153,617,531	68
Investment properties (Notes 4 and 17)	2,075,345	1	2,075,624	1
Other intangible assets (Notes 4 and 18)	1,210,796	1	1,019,345	1
Deferred income tax asset (Notes 4, 5 and 29)	5,152,070	2	5,519,332	2
Other assets - non-current (Notes 19, 22, 33 and 34)	3,430,753	1	13,664,545	6
Total non-current assets	177,309,022	77	178,487,798	79
TOTAL	$ 230,136,582	100	$ 225,899,632	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term debts (Note 20)	$ -	-	$ 120,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 33)	221	-	8,655	-
Derivative financial liabilities for hedging - current (Notes 4, 8 and 33)	-	-	82,295	-
Financial liabilities for hedging - current (Notes 4 and 33)	560	-	-	-
Notes and accounts payable (Note 33)	1,594,487	1	483,884	-
Accounts payable - related parties (Notes 33 and 34)	532,815	-	590,806	-
Other payables (Notes 23 and 33)	14,146,198	6	13,033,069	6
Current tax liabilities (Notes 4 and 29)	164,181	-	28,722	-
Provisions - current (Notes 4, 5 and 24)	321,075	-	475,725	-
Contract liabilities - current (Notes 4, 5 and 24)	19,546,455	9	-	-
Deferred revenue - current (Notes 4, 5 and 24)	-	-	16,375,789	7
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 33)	4,445,900	2	4,367,100	2
Loans and debts - current portion (Notes 20, 33 and 35)	15,709,487	7	19,304,674	9
Capital lease obligations - current portion (Notes 4, 22, 33 and 35)	633,398	-	1,617,321	1
Other current liabilities (Note 33)	3,855,115	2	3,801,073	2
Total current liabilities	60,949,892	27	60,289,113	27
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - non-current (Notes 4, 5, 7 and 33)	-	-	926	-
Derivative financial liabilities for hedging - non-current (Notes 4, 5, 8 and 33)	-	-	6,994	-
Bonds payable - non-current (Notes 4, 21, 27 and 33)	28,473,710	12	21,050,000	9
Loans and debts - non-current (Notes 20, 33 and 35)	60,686,148	26	65,753,503	29
Provisions - non-current (Notes 4, 5 and 25)	8,473,464	4	8,013,583	4
Contract liabilities - current (Notes 4, 5 and 24)	1,903,665	1	-	-
Deferred tax liabilities (Notes 4 and 29)	188,447	-	190,682	-
Capital lease obligations - non-current (Notes 4, 22, 33 and 35)	2,945	-	636,222	-
Deferred revenue - non-current (Notes 4, 5 and 24)	-	-	1,818,265	1
Accrued pension costs (Notes 4, 5 and 26)	8,803,382	4	8,101,565	4
Other non-current liabilities (Note 33)	607,845	-	881,260	-
Total non-current liabilities	109,139,606	47	106,453,000	47
Total liabilities	170,089,498	74	166,742,113	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)				
Share capital	54,209,846	24	54,709,846	24
Capital surplus	1,241,214	-	799,999	-
Retained earnings				
Legal reserve	351,923	-	206,092	-
Special reserve	118,810	-	-	-
Unappropriated retained earnings (accumulated deficits)	1,144,928	1	1,458,313	1
Total retained earnings	1,615,661	1	1,664,405	1
Other equity	58,223	-	(107,641)	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	57,081,572	25	57,023,237	25
NON-CONTROLLING INTERESTS (Note 27)	2,965,512	1	2,134,282	1
Total equity	60,047,084	26	59,157,519	26
TOTAL	$ 230,136,582	100	$ 225,899,632	100

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
REVENUE (Notes 4, 28 and 34)	$ 170,711,607	100	$ 156,121,785	100
COSTS (Notes 4, 9, 12, 18, 25, 26, 28 and 34)	153,504,076	90	134,149,374	86
GROSS PROFIT	17,207,531	10	21,972,411	14
OPERATING EXPENSES (Notes 4, 26 and 28)	13,185,148	8	13,146,251	8
OPERATING PROFIT	4,022,383	2	8,826,160	6
NON-OPERATING INCOME AND LOSS				
Other income (Notes 4, 8 and 28)	606,453	1	560,399	-
Other gains and losses (Notes 10, 13, 16, 28 and 31)	(534,848)	-	(5,052,031)	(3)
Finance costs (Notes 9, 28 and 33)	(1,379,985)	(1)	(1,346,801)	(1)
Share of the profit of associates and joint ventures (Note 15)	367,246	-	536,236	-
Total non-operating income and loss	(941,134)	-	(5,302,197)	(4)
PRETAX PROFIT	3,081,249	2	3,523,963	2
INCOME TAX EXPENSE (Notes 4, 5 and 29)	808,565	1	1,033,171	-
NET INCOME	2,272,684	1	2,490,792	2
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Gain on hedging instruments subject to basis adjustment (Notes 4, 27 and 33)	23,884	-	-	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income (Note 8)	930	-	-	-
Remeasurement of defined benefit plans (Notes 4 and 26)	(851,866)	-	(1,021,715)	(1)
Share of other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 31)	(33,242)	-	(42,277)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 29)	187,881	-	173,691	-
	(672,413)	-	(890,301)	(1)

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 27)	$ 26,567	-	$ (140,074)	-
Cash flow hedges (Notes 4 and 27)	-	-	(128,280)	-
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4, 5 and 31)	-	-	60	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 27 and 33)	85,341	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	(17,858)	-	45,419	-
	94,050	-	(222,875)	-
Other comprehensive loss for the year, net of income tax	(578,363)	-	(1,113,176)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,694,321	1	$ 1,377,616	1
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 1,790,361	1	$ 2,208,066	2
Non-controlling interests	482,323	-	282,726	-
	$ 2,272,684	1	$ 2,490,792	2
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 1,258,035	1	$ 1,240,677	1
Non-controlling interests	436,286	-	136,939	-
	$ 1,694,321	1	$ 1,377,616	1
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	$ 0.33		$ 0.40	
Diluted	$ 0.32		$ 0.39	

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company													
			Retained Earnings			Other Equity								
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain on Financial Asset at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total	Non-Controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	$ 54,708,901	$ 799,932	$ 287,224	$ 76,486	$ (157,618)	$ 78,564	$ 1,714	$ -	$ 31,986	$ -	$ (43,372)	$ 55,783,817	$ 2,083,381	$ 57,867,198
Compensation of deficit - capital surplus	-	-	(81,132)	(76,486)	157,618	-	-	-	-	-	-	-	-	-
Disposal of capital surplus of investments in associates accounted for using the equity method	-	(64)	-	-	-	-	-	-	-	-	-	(64)	-	(64)
Convertible bonds converted to ordinary shares	945	131	-	-	-	-	-	-	-	-	-	1,076	-	1,076
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(2,269)	-	-	-	-	-	-	(2,269)	(46,118)	(48,387)
Net income for the year ended December 31, 2017	-	-	-	-	2,208,066	-	-	-	-	-	-	2,208,066	282,726	2,490,792
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(747,484)	(113,550)	60	-	(106,415)	-	-	(967,389)	(145,787)	(1,113,176)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,460,582	(113,550)	60	-	(106,415)	-	-	1,240,677	136,939	1,377,616
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(39,920)	(39,920)
BALANCE AT DECEMBER 31, 2017	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 adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118	-	12,118
Appropriation of 2017 earnings														
Legal reserve	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-	-	-
Cash dividends - $0.2181820086 per share	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)	-	(1,193,670)
Changes in capital surplus from dividends distributed to subsidiaries	-	630	-	-	-	-	-	-	-	-	-	630	-	630
Net income for the year ended December 31, 2018	-	-	-	-	1,790,361	-	-	-	-	-	-	1,790,361	482,323	2,272,684
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(645,495)	25,322	-	268	-	87,579	-	(532,326)	(46,037)	(578,363)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	1,144,866	25,322	-	268	-	87,579	-	1,258,035	436,286	1,694,321
Gain or loss on non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	565,963	565,963
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-	(469,393)	(469,393)	-	(469,393)
Treasury shares retired	(500,000)	30,607	-	-	-	-	-	-	-	-	469,393	-	-	-
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(171,019)	(171,019)
BALANCE AT DECEMBER 31, 2018	$ 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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,081,249	$ 3,523,963
Adjustments for operating activities:		
Depreciation expenses	19,325,083	18,340,022
Amortization expenses	191,979	259,129
Bad debts expense	49,824	45,016
Net (gain) loss on fair value changes of financial assets and liabilities held for trading	(11,168)	32,039
Interest income	(330,710)	(210,264)
Dividend income	(9,603)	(9,564)
Share of profit of associates and joint ventures	(367,246)	(536,236)
Loss (gain) on disposal of property, plant and equipment	270,597	(6,153)
Gain on disposal of investments accounted for using the equity method	(450,195)	(101,105)
Loss (gain) on disposal of non-current assets held for sale	368,992	(252,467)
Impairment loss on non-current assets held for sale	75,437	3,571,301
Impairment loss recognized on property, plant, equipment	50,000	690,579
Loss on inventories and property, plant and equipment	623,022	644,005
Impairment loss on financial assets measured at cost	-	56,023
Net loss (gain) on foreign currency exchange	298,787	(327,854)
Finance costs	1,379,985	1,346,801
Recognition of provisions	3,386,052	3,201,642
Amortization of unrealized gain on sale-leasebacks	(13,888)	(14,512)
Changes in operating assets and liabilities		
Financial assets held for trading	-	77,133
Financial assets mandatorily classified as at fair value through profit or loss	269,682	-
Financial liabilities mandatorily classified as at fair value through profit or loss	(9,359)	9,580
Notes and accounts receivable	(1,304,948)	(298,519)
Accounts receivable - related parties	253,540	(101,830)
Other receivables	(100,400)	215,027
Inventories	(288,941)	(616,396)
Derivative financial assets for hedging	(1,838,950)	-
Other current assets	15,763	(1,474,384)
Notes and accounts payable	993,434	(464,147)
Accounts payable - related parties	(97,753)	309,729
Other payables	535,211	2,239,296
Contract liabilities	3,256,101	-
Deferred revenue	-	1,564,292
Provisions	(3,310,089)	(1,755,029)
Other current liabilities	73,958	314,740
Accrued pension liabilities	(205,340)	(876,289)
Other liabilities	2,698	(23,007)
Cash generated from operations	26,162,804	29,372,561

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Interest received	$ 301,465	$ 228,247
Dividends received	228,636	443,509
Interest paid	(1,319,690)	(1,319,910)
Income tax paid	(185,208)	(177,389)
Net cash generated from operating activities	25,188,007	28,547,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of associates	-	(2,450)
Proceeds from disposal of non-current assets held for sale	688,427	1,128,472
Proceeds from disposal of investments accounted for using the equity method	-	380,850
Payments for property, plant and equipment	(4,608,600)	(2,535,293)
Proceeds from disposal of property, plant and equipment	333,284	95,929
Increase in refundable deposits	(265,335)	(289,911)
Decrease in refundable deposits	391,487	245,505
Increase in prepayments for equipment	(14,991,412)	(24,756,184)
Increase in long-term lease receivable	(785)	(716)
Increase in computer software costs	(184,223)	(141,448)
Decrease in restricted assets	59,726	82,906
Acquisition of subsidiaries	136,769	-
Net cash used in investing activities	(18,440,662)	(25,792,340)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for buy-back of ordinary shares	(469,393)	-
Decrease in short-term debts	(120,000)	(18,021)
Decrease in short-term bills payable	-	(900,000)
Proceeds from issuance of bonds payable	10,512,000	5,850,000
Repayments of bonds payable	(2,700,000)	(2,700,000)
Proceeds from long-term borrowings	18,285,457	30,657,300
Repayments of long-term borrowings and capital lease obligations	(28,587,288)	(37,506,405)
Proceeds from guarantee deposits received	126,578	250,062
Refunds of guarantee deposits received	(70,204)	(214,060)
Dividends paid to owners of the Company	(1,193,040)	-
Cash dividends paid to non-controlling interests	(171,019)	(39,920)
Acquisition of subsidiaries' shares	-	(48,387)
Net cash used in financing activities	(4,386,909)	(4,669,431)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(8,231)	232,888

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ 2,352,205	$ (1,681,865)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	22,585,332	24,267,197
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 24,937,537	$ 22,585,332

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

1. GENERAL INFORMATION

China Airlines, Ltd. (the "Company") was founded in 1959 and its shares have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) the sale of aircraft parts, equipment and the entire aircraft; 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 December 31, 2018 and 2017, CADF and NDF held 44.03% and 43.63% of the Company's shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") were approved by the Company's board of directors and authorized for issue on March 20, 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 (FSC) and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the FSC

   Except for the following, whenever applied, 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 would not have any material impact on the Group's accounting policies:

   1) IFRS 9 "Financial Instruments" and related amendments

      IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

      The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

      On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Asset	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Equity securities	Financial assets measured at cost	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	$ 84,075	$ 131,585	a)
Time deposits with original maturities of more than 3 months (other financial assets)	Loans and receivables	Amortized cost	1,323,095	1,323,095	
Principal-protected notes (other financial assets)	Loans and receivables	Financial assets at fair value through profit or loss (i.e. FVTPL)	483,318	483,318	c)

Financial Asset	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI							
Equity instruments	$ -	$ -	$ -	$ -	$ -	$ -	
Add: Reclassification from FVTPL (IAS 39)	-	-	-	-	60	(60)	b)
Add: Financial assets measured at cost (IAS 39)	-	84,075	47,510	131,585	-	40,637	a)
	$ -	$ 84,075	$ 47,510	$ 131,585	$ 60	$ 40,637	

a) Investments in unlisted shares previously measureded at cost under IAS 39 have been classified as designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $47,510 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

b) Mutual funds held by investments accounted for using the equity method previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The retrospective adjustment resulted in a decrease of $60 thousand in other equity - unrealized gain (loss) on available-for-sale financial assets and an increase of $60 thousand in retained earnings on January 1, 2018.

c) Contracts such as principal-protected notes signed by the Group and financial institutions are hybrid instruments. Since the related master contracts included in these hybrid instruments are assets within the scope of IFRS 9, the overall master contracts should be classified under IFRS 9.

d) Except for the above, the remaining financial assets classified as loans and receivables amounting to $34,792,801 thousand based on IAS 39 are classified as financial assets at amortized cost under IFRS 9.

e) In line with the equity adjustments above, the Group's deferred tax liabilities increased by $6,873 thousand.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output). The Group chooses to apply retroactively IFRS 15 only for contracts that have not yet been completed on the conversion date. Also, the revenue-related amount received should be recognized as contract liabilities. Therefore, the previously classified deferred revenue - current and non-current are reclassified to contract liabilities - current and non-current which amounted to $16,375,789 thousand and $1,818,265 thousand, respectively, on January 1, 2018.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

IFRS 16 "Leases"

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

Definition of a lease

Upon initial application of IFRS 16, the Group will elect 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 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present 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 will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be 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 will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group will apply IAS 36 to all right-of-use assets.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

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 will be accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Group will recognize only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Currently, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Group will 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 will apply to the leaseback portion. In addition, for asset currently accounted for as a sale and a finance lease under IAS 17, the Group will continue to amortize any gains on sales over the lease term.

The Group as lessor

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

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid rent	$ 861,045	$ (861,045)	$ -
Refundable deposits	1,089,690	(215,425)	874,265
Right-of-use assets	-	78,499,374	78,499,374
Other financial assets	-	189,808	189,808
Property, plant and equipment	163,107,718	(30,682)	163,077,036
Total effect on assets	$ 165,058,453	$ 77,582,030	$ 242,640,483
Lease liabilities - current	$ -	$ 9,276,226	$ 9,276,226
Lease liabilities - non-current	-	68,343,669	68,343,669
Capital lease obligation - non-current	37,775	(37,775)	-
Accrued rent payable	90	(90)	-
Total effect on liabilities	$ 37,865	$ 77,582,030	$ 77,619,895

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 1)
Amendments to IFRS 3 "Definition of Business"	January 1, 2020 (Note 2)
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
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)

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

Note 2: Business combinations that began after January 1, 2020 and acquisition of assets after the aforesaid date are subjected to the amendment.

Note 3: The amendment is applied for the annual period beginning 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.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

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

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

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

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

3) Level 3 inputs are unobservable inputs for an asset or liability.

Current and Non-current Assets and Liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

Foreign Currencies

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

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

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

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

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

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

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

Business Combinations

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gains on bargain purchases. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date.

When a business combination is achieved in stages, the Group's previously held equity interest in an acquiree is remeasured to fair value at the acquisition date, and the resulting is recognized in profit or loss or other comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required if those interests were directly disposed of by the Group

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

Inventories

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

Non-current Assets Held for Sale

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

Freehold land is not depreciated.

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

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

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

Investment Properties

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

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 33.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if an equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of an investment.

<u>2017</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 33.

b) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other financial assets and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

<u>2018</u>

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as contract assets.

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables and other receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amounts of the financial assets.

<u>2017</u>

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investments have been affected.

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

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

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

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

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

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

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

Equity instruments issued by the Group entity are recognized at the proceeds received, net of direct issue costs.

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

c. Financial liabilities

1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

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

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

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

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

e. Derivative financial instruments

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

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

Hedge Accounting

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

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

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

Before 2017, hedge accounting was discontinued prospectively when the Group revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. Starting from 2018, the Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period in which the hedge was effective remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

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

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

Aircraft lease contracts

When an aircraft lease contracts expires and the leased item will be returned to the lessor, the Group will assess if there are existing obligations exist and if it is required to recognize a provision when signing the lease contract.

Revenue Recognition

When applying IFRS 15 during 2018, the Group recognizes revenue by applying the following steps:

- Identifying the contract with the customer;
- Identifying the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

Shipping service revenue

Passenger and cargo revenue are recognized as revenue when the passengers and goods are actually carried. When the tickets are sold, due to the fact that the fulfillment obligations of the shipment have not been met, the relevant amount of revenue is first recorded as contract liabilities until passengers actually board. Before 2017, the relevant amounts were recorded as deferred revenue.

Leasing

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

a. Financial 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, the transaction 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

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

2) The Group as lessee

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities (assets) represent the actual deficit in the Group's defined benefit plans.

Borrowing Costs

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

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

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

Frequent Flyer Programs

The Company has a “Dynasty Flyer Program” through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member rewards and operates a “Tigerclub Member Privilege Program” to provide members with accumulated ticket reward bonuses, which can be used to offset the payments for airfare, luggage fees, priority check-ins, and ordering of meals in flight cabins. A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company should recognizes this deferred revenue as revenue only when the Company has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

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

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

Taxation

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

a. Current tax

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

   The Group’s current tax liabilities are calculated by the tax rate was legislated or substantially legislated at the balance sheet date.

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred taxes for the year

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

Maintenance and Overhaul Costs

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

The overhaul costs of an owned or leased aircraft that meet the criteria for fixed asset capitalization are capitalized as replacements for aircraft and engines and are depreciated on a straight-line basis over the expected annual overhaul cycle.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

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

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment is depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Group on the basis of past experience and fleet operation performance in the industry. Due to changes in the fleet plan, the board of directors of the Company has decided to change the expected useful lives of four 747-400 (GE) from 20 to 16-17 years since January 1, 2018 in order to meet the economic benefits and number of years of consumption. It is estimated that the depreciation expense will increase by approximately NT$770 million annually.

Defined Benefit Obligations

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand and revolving funds	$ 413,139	$ 374,445
Checking accounts and demand deposits	7,770,200	11,427,766
Cash equivalents		
Time deposits with original maturities of less than three months	15,784,323	4,812,734
Repurchase agreements collateralized by bonds	969,875	5,970,387
	$ 24,937,537	$ 22,585,332

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

	December 31	
	2018	**2017**
Bank balance	0%-1.90%	0%-2.00%
Time deposits with original maturities of less than three months	0.59%-3.55%	0.59%-4.20%
Repurchase agreements collateralized by bonds	0.63%-3.30%	0.36%-2.20%

The amount of time deposits with original maturities more than three months for the year ended December 31, 2017 were $1,323,095 thousand, respectively, and the market rate intervals were 0.16%-1.42%, which were recognized as other current assets. (Refer to Note 18.)

7. FINANCIAL INSTRUMENTS AT FVTPL

	December 31	
	2018	2017
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Beneficial certificates	$ 206,001	$ -
Financial assets held for trading - current		
Non-derivative financial assets		
Beneficial certificates	$ -	$ 306,839
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
Current	$ 221	$ 8,655
Non-current	-	926
	$ 221	$ 9,581

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

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2018			
Buy forward contracts	NTD/USD	2019.01.02-2019.01.31	NTD30,923/USD1,000
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.31-2019.01.31	NTD194,030/USD6,500

8. FINANCIAL ASSETS AT FVTOCI - 2018

Investments in Equity Instruments

	December 31, 2018
Non-current	
Foreign investments	
Unlisted shares	$ 110,445
Domestic investments	
Unlisted shares	21,746
	$ 132,191

These investments in equity instruments are not held for trading. Instead, they are held for medium- to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as it believes 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. These investments in equity instruments were classified as available-for-sale and financial assets measured at cost under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Time deposits with original maturities of more than 3 months (e)	$ 3,856,660

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.40% to 1.36% as of the end of the reporting period. The time deposits were classified as other financial assets under IAS 39. Refer to Notes 3, 6 and 19 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS CARRIED AT COST - 2017

	December 31, 2017	
	Carrying Amount	% of Owner-ship
Unlisted ordinary shares		
Everest Investment Holdings Ltd. (AH)	$ 52,704	14
Jardine Aviation Service	-	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	3
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	19,898	5
Chung Hwa Express Co.	11,000	11
	83,602	
Unlisted preference shares		
Everest Investment Holdings Ltd. (AH)	473	
	$ 84,075	
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 84,075	

Due to the permanent decrease in the value of Jardine Aviation Service held by the Group, the Group recognized an impairment loss of $56,023 thousand in June 2017, which was classified as other gains and losses.

On the reporting date, the above unlisted share investments held by the Group were measured at cost after deducting impairment losses because their range of reasonable fair value estimates were significant and unable to be reasonably evaluated. Thus, the management considered their fair values unable to be measured.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
Notes receivable	$ 598,824	$ 362,855
Accounts receivable		
Accounts receivable	9,667,010	8,423,278
Less: Allowance for impairment loss	(227,306)	(181,868)
	9,439,704	8,241,410
	$ 10,038,528	$ 8,604,265

For the year ended December 31, 2018

The average credit period was 7 to 55 days. In determining the recoverability of a trade 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 trade 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 loss allowance based on the past due status is not further distinguished according to the different segments of the Group's customer base.

The Group writes off a trade 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 trade receivables based on the Group's provision matrix.

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%	97.5%	
Gross carrying amount	$ 7,856,048	$ 1,424,421	$ 103,498	$ 76,415	$ 206,628	$ 9,667,010
Loss allowance (lifetime ECLs)	(4,546)	(856)	(3,796)	(16,642)	(201,466)	(227,306)
Amortized cost	$ 7,851,502	$ 1,423,565	$ 99,702	$ 59,773	$ 5,162	$ 9,439,704

The movements of the loss allowance of trade receivables were as follows:

	For the Year Ended December 31, 2018
Balance at January 1, 2018 per IAS 39	$ 181,868
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	181,868
Add: Net remeasurement of loss allowance	49,824
Less: Amounts written off	(2,975)
Foreign exchange gains and losses	(1,411)
Balance at December 31, 2018	$ 227,306

December 31, 2017

The Group applied the same credit policy in 2018 and 2017.

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

	For the Year Ended December 31, 2017
Beginning balance	$ 191,398
Impairment loss recognized on receivables	45,016
Amounts written off during the current period	(54,570)
Amounts receivable during the current period	24
Ending balance	$ 181,868

12. INVENTORIES

	December 31	
	2018	2017
Aircraft spare parts	$ 7,847,082	$ 8,082,993
Items for in-flight sale	556,365	576,429
Work in process - maintenance services	227,975	71,046
Others	23,288	1,287
	$ 8,654,710	$ 8,731,755

The operating costs recognized for the years ended December 31, 2018 and 2017 included losses from inventory write-downs of $371,275 thousand and $324,447 thousand, respectively.

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2018	2017
Aircraft held for sale	$ 46,154	$ 309,330
Long-term equity investments held for sale - Asian Compressor Technology Services	-	117,223
	$ 46,154	$ 426,553

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as non-current assets held for sale, had an original book value which was higher than the expected sale price and which was recognized as an impairment loss. However, the actual loss shall be identified by the actual sale price.

In 2018 and 2017, the Company recognized impairment losses of $75,436 thousand and $3,571,301 thousand, respectively. In 2018 and 2017, the Company recognized disposal gains and losses of $(368,992) thousand and $252,467 thousand, respectively. The fair value was determined by transactions of the related market, and the proposed sale price was based on the current status of the aircraft. The fair value is classified as level 3.

14. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

			Proportion of Ownership (%)	
			December 31	
Investor Company	Investee Company	Main Businesses and Products	2018	2017
China Airlines, Ltd.	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	100	100
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100
	CAL-Dynasty International	A holding company, real estate and hotel services	100	100
	CAL-Asia Investment	General investment	100	100
	Hwa Hsia	Cleaning of aircraft and maintenance of machine and equipment	100	100

(Continued)

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%) December 31 2018	2017
	Yestrip	Travel business	100	100
	Cal Park	Real estate lease and international trade	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59
	Kaohsiung Catering Services, Ltd.	In-flighting catering	54	36
	Dynasty Holidays	Travel business	51	51
	Taoyuan International Airport Services	Airport services	49	49
	Taiwan Airport Services (Note)	Airport services	48	48
	Global Sky Express	Forwarding and storage of air cargo	25	25
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100

(Concluded)

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

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the years ended December 31, 2018 and 2017 of these subsidiaries was reported according to the information which was audited independently.

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 related information, refer to Note 15b.

The Group paid $243,743 thousand on March 7, 2018 to acquire an additional 18% of Kaohsiung Catering, Ltd. (Kaohsiung Catering) of which the Group's holding of the issued share capital exceeded 50%. 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, refer to Note 31.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31 2018	2017
Investments in associates	$ 1,217,863	$ 1,576,753
Investments in jointly controlled entities	982,286	930,593
	$ 2,200,149	$ 2,507,346

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

	December 31	
	2018	2017
Unlisted companies		
China Aircraft Services	$ 497,362	$ 493,077
Kaohsiung Catering Services	-	300,400
Airport Air Cargo Terminal (Xiamen)	442,891	483,814
Airport Air Cargo Service (Xiamen)	233,417	256,291
Eastern United International Logistics (Holdings) Ltd.	44,193	43,171
	$ 1,217,863	$ 1,576,753

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

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Associate	2018	2017
China Aircraft Services	20%	20%
Kaohsiung Catering Services	-	36%
Airport air Cargo Terminal (Xiamen)	28%	28%
Airport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

Note: Kaohsiung Catering Services was list as a subsidiary on March 7, 2018.

Proportion of ownership is considered from the perspective of the Group.

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

	2018	2017
China Aircraft Services	$ 6,402	$ 24,470
Kaohsiung Catering Services	15,113	86,757
Asian Compressor Technology Services	-	88,943
Science Park Logistics	-	21,819
Airport air Cargo Terminal (Xiamen)	22,571	22,381
Airport air Cargo Service (Xiamen)	32,196	27,886
Eastern United International Logistics (Holdings) Ltd.	6,895	4,806
	$ 83,177	$ 277,062

Other comprehensive income of associates accounted for using the equity method in 2018 and 2017 are losses in the amounts of $0 thousand and $(740) thousand, respectively.

In August 2017, the Group sold all of its holdings of Science Park Logistics to a non-related party, HCT Logistics Co., Ltd. The agreed upon price was $380,850 thousand, and a disposal gain of $101,166 thousand was recognized.

In October 2017, the Group signed a contract with a non-related party, MB Aerospace, to sell all of its holdings of Asian Compressor Technology Services and reclassified it as non-current assets held for sale at book value. The transaction was completed and all payments were settled in January 2018. The total transaction price was $471,132 thousand, and a disposition gain of $353,909 thousand was recognized.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were all independently audited, except those of China Aircraft Services and Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2018	**2017**
China Pacific Catering Services	$ 805,157	$ 756,965
China Pacific Laundry Services	166,901	171,229
NORDAM Asia Ltd.	2,358	2,399
Delica International Co., Ltd.	7,870	-
	$ 982,286	$ 930,593

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

	Proportion of Ownership and Voting Rights	
	December 31	
	2018	**2017**
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia Ltd.	49%	49%
Delica International Co., Ltd.	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 parties have the majority power in the board of directors to pose a motion for veto, 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.

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

	For the Year Ended December 31	
	2018	**2017**
China Pacific Catering Services	$ 267,413	$ 235,871
China Pacific Laundry Services	16,695	23,354
NORDAM Asia Ltd.	(41)	(51)
Delica International Co., Ltd.	2	-
	$ 284,069	$ 259,174

Other comprehensive income of associates accounted for using the equity method in 2018 and 2017 are losses in the amounts of $(33,242) thousand and $(41,477) thousand, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were all independently audited, except of NORDAM Asia Limited. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 6, "Names, Locations, And Other Information of Investees Over Which the Company Exercises Significant Influence", and Table 7, "Investments In Mainland China", following these notes to consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2017	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927
Additions	-	674,719	1,022,602	1,607	821,218	2,520,146
Disposals	-	(5,942)	(4,550,399)	(479,936)	(825,699)	(5,861,976)
Reclassification	-	-	18,692,862	(2,232,883)	260,432	16,720,411
Net exchange difference	(42,548)	(75,452)	-	(123)	(7,740)	(125,863)
Balance at December 31, 2017	$ 922,626	$ 13,698,308	$ 263,427,144	$ 26,187,556	$ 16,230,011	$ 320,465,645
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)
Depreciation expense	-	(393,458)	(15,178,386)	(1,919,407)	(848,492)	(18,339,743)
Disposals	-	3,926	4,022,977	619,775	415,421	5,062,099
Impairment loss	-	-	(690,579)	-	-	(690,579)
Reclassification	-	-	11,144,331	3,003,549	8,271	14,156,151
Net exchange difference	-	33,592	-	(101)	6,657	40,148
Balance at December 31, 2017	$ -	$ (6,137,495)	$ (136,594,765)	$ (14,142,872)	$ (9,972,982)	$ (166,848,114)

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2018	$ 922,626	$ 13,698,308	$ 263,427,144	$ 26,187,556	$ 16,230,011	$ 320,465,645
Additions	-	57,998	2,684,337	-	1,868,212	4,610,547
Disposals	-	(11,803)	(20,307,375)	(1,811,222)	(313,727)	(22,444,127)
Reclassification	-	(227)	13,661,640	1,428,463	103,296	15,193,172
Net exchange difference	16,234	28,991	-	211	3,003	48,439
Gain of acquisitions through business combinations	76,704	220,318	229,384	-	26,985	553,391
Balance at December 31, 2018	$ 1,015,564	$ 13,993,585	$ 259,695,130	$ 25,805,008	$ 17,917,780	$ 318,427,067
Accumulated depreciation and impairment						
Balance at January 1, 2018	$ -	$ (6,137,495)	$ (136,594,765)	$ (14,142,872)	$ (9,972,982)	$ (166,848,114)
Depreciation expense	-	(433,450)	(15,960,477)	(2,023,924)	(906,953)	(19,324,804)
Disposals	-	10,049	19,814,544	1,532,046	292,136	21,648,775
Impairment loss	-	-	(50,000)	-	-	(50,000)
Reclassification	-	-	9,283,041	-	(11,655)	9,271,386
Net exchange difference	-	(13,977)	-	(72)	(2,543)	(16,592)
Balance at December 31, 2018	$ -	$ (6,574,873)	$ (123,507,657)	$ (14,634,822)	$ (10,601,997)	$ (155,319,349)

(Concluded)

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

Building	
Main buildings	45-55 years
Others	10-25 years
Machinery and equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
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, current and forecasted market value, and other technical factors, the Group recognized impairment losses on aircraft equipment in 2018 and 2017 of $50,000 thousand and $690,579 thousand, respectively.

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.

The Group generated the following non-cash investment activities related to the purchase of property, plant and equipment in 2017:

	December 31, 2018
Increase in property, plant and equipment	$ 4,610,547
Capitalized interest paid	(1,947)
Purchase of property, plant and equipment paid	$ 4,608,600

17. INVESTMENT PROPERTIES

	December 31	
	2018	2017
Carrying amount		
Investment properties	$ 2,075,345	$ 2,075,624

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

The fair value of the investment properties held by the Group was $2,506,230 thousand as of both December 31, 2018 and 2017, respectively. The fair value valuation was 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 interest.

	Cost	Accumulated	Net Value
Balance at January 1, 2017	$ 2,082,390	$ (6,487)	$ 2,075,903
Depreciation expense	-	(279)	(279)
Balance at December 31, 2017	$ 2,082,390	$ (6,766)	$ 2,075,624
Balance at January 1, 2018	$ 2,082,390	$ (6,766)	$ 2,075,624
Depreciation expense	-	(279)	(279)
Balance at December 31, 2018	$ 2,082,390	$ (7,045)	$ 2,075,345

18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
Balance at January 1, 2017	$ 1,898,154	$ -	$ (761,039)	$ 1,137,115
Additions	141,448	-	-	141,448
Amortization expense	-	-	(259,129)	(259,129)
Exchange influence	-	-	(89)	(89)
Balance at December 31, 2017	$ 2,039,602	$ -	$ (1,020,257)	$ 1,019,345
Balance at January 1, 2018	$ 2,039,602	$ -	$ (1,020,257)	$ 1,019,345
Additions	184,223	-	-	184,223
Amortization expenses	-	-	(181,943)	(181,943)
Acquisitions through business combinations	686	186,197	(10,036)	176,847
Reclassification	12,871	-	(540)	12,331
Effects of exchange rate changes	-	-	(7)	(7)
Balance at December 31, 2018	$ 2,237,382	$ 186,197	$ (1,212,783)	$ 1,210,796

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

19. OTHER ASSETS

	December 31	
	2018	2017
Current		
Other financial assets	$ -	$ 1,806,413
Temporary payments	556,860	464,258
Prepayments	3,028,808	2,834,936
Restricted assets	18,623	-
Others	543,591	895,931
	$ 4,147,882	$ 6,001,538
Non-current		
Prepayments for aircraft	$ 529,963	$ 10,942,604
Prepayments - long-term	1,603,400	1,164,604
Refundable deposits	1,089,690	1,377,136
Restricted assets	100,141	161,398
Other financial assets	19,335	18,803
Others	88,224	-
	$ 3,430,753	$ 13,664,545

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and ATR72-600 aircraft. For details on the A350-900 aircraft purchase contracts, refer to Note 36.

20. BORROWINGS

a. Short-term debts

	December 31	
	2018	**2017**
Bank loans - unsecured	$ -	$ 120,000
Interest rates	-	1.04%-1.15%

b. Long-term borrowings

	December 31	
	2018	**2017**
Unsecured bank loans	$ 9,354,457	$ 26,820,000
Secured bank loans	36,330,211	32,176,074
Commercial paper		
Proceeds from issue	30,770,000	26,100,000
Less: Unamortized discount	59,033	37,897
	76,395,635	85,058,177
Less: Current portion	15,709,487	19,304,674
	$ 60,686,148	$ 65,753,503
Interest rates	0.92%-1.46%	0.92%-1.56%

For information on secured bank loans which were secured by freehold land, buildings, machinery equipment and flight equipment, refer to Note 35.

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

	December 31	
	2018	**2017**
Periods	2007.5.24- 2030.4.25	2007.5.24- 2029.11.9

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until December 2021, were used by the Group to guarantee commercial papers issued. As of December 31, 2018 and 2017, the commercial papers were issued at discount rates of 1.0693%-1.2960% and 0.9983%-1.2897%, respectively.

21. BONDS PAYABLE

	December 31 2018	December 31 2017
Unsecured corporate bonds first-time issued in 2013	$ 5,500,000	$ 8,200,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	-
Convertible bonds - fifth-time issues	1,695,900	1,667,100
Convertible bonds - sixth-time issues	5,673,710	-
	32,919,610	25,417,100
Less: Current portion and put option of convertible bonds	4,445,900	4,367,100
	$ 28,473,710	$ 21,050,000

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 September 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; 1.32% 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
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.45
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	Except for converting to share capital or buying back, principal repayable in December of 2018	-
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Except for converting to share capital or buying back, principal repayable in December of 2023	-

(Concluded)

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

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

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

b. The holders can request that the Company repurchase their bonds at 100.75% 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 of $41,943 thousand, for which the Company reclassified the remaining face value to non-current 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, there was adjustment the conversion price to NT$11.38, corporate bonds with a face value of $3,316,800 thousand had been converted to 270,985 thousand units of ordinary shares.

e. The convertible bonds has expired on December 26, 2018, the Company has fully repayable in January 8, 2019, the related capital surplus - share option has reclassified as 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	(518,621)
Liability component at the date of issuance	$ 5,481,379

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 August 14, 2018, the conversion price was adjusted to NT$12.9.

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	(409,978)
Liability component at the date of issuance	$ 5,602,022

22. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2018	**2017**
Minimum lease payments -flight equipment		
Within one year	$ 596,000	$ 1,580,000
Later than one year and no later than five years	-	596,000
Present value of minimum lease payments	$ 596,000	$ 2,176,000
Interest rates	1.0680%	1.0617%-1.1317%

As of December 31, 2017, the Company leased engines and a total of three A330-300 aircraft by sale-leaseback contracts under finance leases. The lease terms are from June 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to the aircraft and engines and enjoyed the same substantive rights as were enjoyed prior to the transactions. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Finance leases

Taiwan Air Cargo Terminal Co. (TACT) entered into a terminal construction contract. Refer to Note 34 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	2017
Minimum lease payments - cargo terminal and other		
Within one year	$ 37,998	$ 37,484
Beyond one year and within five years	2,974	40,851
	40,972	78,335
Less: Financial cost	(629)	(792)
Present value of minimum lease payments	$ 40,343	$ 77,543
Present value of minimum lease payments - cargo terminal and other		
Within one year	$ 37,398	$ 37,321
Beyond one year and within five years	2,945	40,222
	$ 40,343	$ 77,543
Discount rate	4.756%	4.756%
Total amount of present value of minimum lease payments		
Current	$ 633,398	$ 1,617,321
Non-current	2,945	636,222
	$ 636,343	$ 2,253,543

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

China Airlines, Ltd., Mandarin Airlines, Tigerair Taiwan and Taiwan Air Cargo Terminal rented planes, hangars and etc. under various operating lease contracts expiring on various dates until May 2028. The Group does not have a bargain purchase option to acquire the leased planes and hangar at the expiration of the lease periods.

The rental rates stated in the aircraft lease agreements some are fixed and some are floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of December 31, 2017, the Group has rented eleven A330-300 planes, fifteen B737-800 planes, ten 777-300ER planes, six ERJ 190 planes, three ATR72-600 and ten A320-200 planes under operating contracts which the lease terms range from 6 to 12 years, with an extension option.

As of December 31, 2018 and 2017, the refundable deposits paid by the Group under operating lease contracts were $693,466 thousand and $807,629 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31, 2018 and 2017 were $1,682,774 thousand and $1,394,791 thousand, respectively.

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

	December 31	
	2018	**2017**
Up to 1 year	$ 11,785,442	$ 11,499,501
Over 1 year to 5 years	44,559,429	43,175,899
Over 5 years	21,685,499	29,762,766
	$ 78,030,370	$ 84,438,166

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

	For the Year Ended December 31	
	2018	**2017**
Minimum lease payments	$ 11,735,495	$ 10,432,620

23. OTHER PAYABLES

	December 31	
	2018	**2017**
Fuel costs	$ 3,822,018	$ 3,484,288
Ground service expenses	1,167,214	1,187,329
Repair expenses	1,031,700	926,686
Interest expense	266,268	290,902
Short-term employee benefits	2,237,409	2,550,551
Terminal surcharges	1,151,578	876,108
Commission expenses	484,341	407,109
Others	3,985,670	3,310,096
	$ 14,146,198	$ 13,033,069

24. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31	
	2018	**2017**
	Contract Liabilities	**Deferred Revenue**
Frequent flyer programs	$ 2,493,551	$ 2,450,877
Advance ticket sales	18,956,569	15,743,177
	$ 21,450,120	$ 18,194,054

(Continued)

	December 31	
	2018	2017
	Contract Liabilities	Deferred Revenue
Current	$ 19,546,455	$ 16,375,789
Non-current	1,903,665	1,818,265
	$ 21,450,120	$ 18,194,054

(Concluded)

25. PROVISIONS

	December 31	
	2018	2017
Operating leases - aircraft	$ 8,794,539	$ 8,489,308
Current	$ 321,075	$ 475,725
Non-current	8,473,464	8,013,583
	$ 8,794,539	$ 8,489,308

	Aircraft Lease Contract
Balance at January 1, 2017	$ 7,490,154
Additional provisions recognized	3,201,642
Usage	(1,755,029)
Effect of exchange rate changes	(447,459)
Balance at December 31, 2017	$ 8,489,308
Balance at January 1, 2018	$ 8,489,308
Additional provisions recognized	3,386,052
Usage	(3,310,089)
Effect of exchange rate changes	229,268
Balance at December 31, 2018	$ 8,794,539

The Group 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 revolutions. The Group 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 must pay maintenance reserves monthly according to the actual number of flight hours.

26. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

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

b. Defined benefit plans

The defined benefit plan adopted by the Company and in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and subsidiary contribute amounts equal to 2%-15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

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

	December 31	
	2018	**2017**
Present value of funded defined benefit obligation	$ 17,464,856	$ 16,149,382
Fair value of plan assets	(8,661,474)	(8,047,817)
Deficit (net defined benefit liabilities)	$ 8,803,382	$ 8,101,565

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities (Assets)**
Balance at January 1, 2017	$ 15,119,110	$ (7,162,275)	$ 7,956,835
Service cost			
Current service cost	939,046	-	939,046
Cost from consolidation	(319)	-	(319)
Net interest expense (income)	178,259	(90,471)	87,788
Recognized in profit or loss	1,116,986	(90,471)	1,026,515

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	23,429	23,429
Actuarial (gain) loss - changes in demographic assumptions	19,197	-	19,197
Actuarial (gain) loss - changes in financial assumptions	458,746	-	458,746
Actuarial (gain) loss - experience adjustments	520,343	-	520,343
Recognized in other comprehensive income	998,286	23,429	1,021,715
Contributions from the employer	-	(1,769,694)	(1,769,694)
Benefits paid	(951,194)	951,194	-
Others	(133,806)		(133,806)
Balance at December 31, 2017	16,149,382	(8,047,817)	8,101,565
Service cost			
Current service cost	1,384,213	-	1,384,213
Net interest expense (income)	163,283	(82,595)	80,688
Recognized in profit or loss	1,547,496	(82,595)	1,464,901
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(236,287)	(236,287)
Actuarial (gain) loss - changes in demographic assumptions	15,538	-	15,538
Actuarial (gain) loss - changes in financial assumptions	344, 716	-	344, 716
Actuarial (gain) loss - experience adjustments	727,899	-	727,899
Recognized in other comprehensive income	1,088,153	(236,287)	851,866
Contributions from the employer	-	(1,486,550)	(1,486,550)
Benefits paid	(1,210,839)	1,210,839	-
Others	(109,336)	(19,064)	(128,400)
Balance at December 31, 2018	$ 17,464,856	$ (8,661,474)	$ 8,803,382

(Concluded)

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

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

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

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

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

	December 31	
	2018	2017
Discount rate(s)	0.86%-1.35%	0.88%-1.25%
Expected rate(s) of salary increase	1.00%-2.50%	1.00%-2.00%

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

	December 31, 2018
Discount rate(s)	
0.5% increase	$ (777,193)
0.5% decrease	841,488
Expected rate(s) of salary increase	
0.5% increase	811,485
0.5% decrease	(760,793)

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	$ 916,927	$ 887,216
The average duration of the defined benefit obligation	8-12 years	8-12 years

27. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2018	2017
Numbers of shares authorized (in thousands)	6,000,000	6,000,000
Amount of shares authorized	$ 60,000,000	$ 60,000,000
Amount of shares issued	$ 54,209,846	$ 54,709,846

For the years ended December 31, 2017, the Company issued the 5th domestic unsecured convertible bonds, and holders of such bonds amounting to $1,100 thousand applied for conversion, for which 95 thousand of the Company's ordinary shares were exchanged. In accordance with the law, the Company may apply for a change of registration after issuing new shares.

b. Capital surplus

	December 31	
	2018	2017
Issuance of convertible bonds in excess of par value and conversion premium	$ 315,114	$ 318,020
Expired employee share options	11,747	11,747
Retirement of treasury shares	33,513	-
Gain on sale of treasury shares held by subsidiaries	3,303	2,673
Long-term investments	955	955
Bonds payable equity component	409,978	146,589
Others	466,604	320,015
	$ 1,241,214	$ 799,999

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

The capital surplus from long-term investments and employee share options expired may not be used for any purpose. Besides, capital surplus from conversion of employee shares and convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

According to 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 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 demand, 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 2016

The legal reserve of $81,132 thousand and special reserve of $76,486 thousand used to offset deficits are subject to resolution by the shareholders in their meeting to be held on June 22, 2017.

2) Appropriation of earnings in 2017

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

3) Appropriation of earnings in 2018

The appropriation of earnings for 2018 should be resolved in the board of directors meeting to be held on March 20, 2019. The appropriation 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

Company undistributed special reserve of $105,844 thousand.

The appropriation of earnings for 2018 should be resolved in the shareholders' meeting to be held on June 25, 2019.

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 FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2017	$ 78,564	$ 1,714	$ -	$ 31,986	$ -	$ 112,264
Exchange differences on translating foreign operations	(136,476)	-	-	-	-	(136,476)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	(305,137)	-	(305,137)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	176,927	-	176,927
Share of profit of associates accounted for using equity method	-	60	-		-	60
Effects of income tax	22,926	-	-	21,795	-	44,721
Other comprehensive income recognized in the period	(113,550)	60	--	(106,415)	-	(219,905)
Balance at December 31, 2017	$ (34,986)	$ 1,774	$ -	$ (74,429)	$ -	$ (107,641)

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at 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 at January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	29,897	-	-	-	-	29,897
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	77,435	77,435
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	31,731	31,731
Unrealized gain on financial assets at FVTOCI	-	-	930	-	-	930
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	(5,773)	-	547	-	(24,117)	(29,343)
Other comprehensive income (loss) recognized in the period	25,322	-	268	-	87,579	113,169
Transfers of initial carrying amount of hedged items	-	-	-	-	12,118	12,118
Balance at December 31, 2018	$ (9,664)	$ -	$ 42,619	$ -	$ 25,268	$ 58,223

(Concluded)

e. Non-controlling interests

	For the Year Ended December 31	
	2018	2017
Beginning balance	$ 2,134,282	$ 2,083,381
Net income attributable to non-controlling interests	482,323	282,726
Foreign exchange differences	(3,330)	(3,598)
Actuarial gains and losses on defined benefit plans	(69,654)	(206,821)
Cash flow hedge on changes in fair value of hedging instruments	(46)	(131)
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	105	61
Effect on income tax	26,888	64,702
Acquisition of non-controlling interests in subsidiaries	565,963	(46,118)
Dividends paid by subsidiaries	(171,019)	(39,920)
Ending balance	$ 2,965,512	$ 2,134,282

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of December 31, 2018 and 2017 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	**Buy Back to Write off**	**Company's Shares Held by Its Subsidiaries**	**Total**
Number of shares, January 1, 2018	-	2,889	2,889
Addition during the year	50,000	-	50,000
Reduction during the year	(50,000)	-	(50,000)
Number of shares, December 31, 2018	-	2,889	2,889
Number of shares, January 1, 2017	-	2,889	2,889
Addition during the year	-	-	-
Number of shares, December 31, 2017	-	2,889	2,889

Subsidiary	**Shares (In Thousands)**	**Carrying Amount**	**Market Value**
December 31, 2018			
Mandarin Airlines	2,075	$ 22,821	$ 22,821
Hwa Hsia	814	8,956	8,956
		$ 31,777	$ 31,777
December 31, 2017			
Mandarin Airlines	2,075	$ 24,169	$ 24,169
Hwa Hsia	814	9,485	9,485
		$ 33,654	$ 33,654

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' right on these treasury shares, except for the right 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.

28. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2018	2017
Passenger	$ 108,345,648	$ 102,216,106
Cargo	49,847,065	43,336,068
Others	12,518,894	10,569,611
	$ 170,711,607	$ 156,121,785

b. Other income

	For the Year Ended December 31	
	2018	2017
Interest income	$ 330,710	$ 210,264
Subsidy income	11,200	32,332
Dividend income	9,603	9,564
Others	254,940	308,239
	$ 606,453	$ 560,399

c. Other gains and losses

	For the Year Ended December 31	
	2018	2017
(Loss) gain on disposal property, plant and equipment	$ (270,597)	$ 6,153
(Loss) gain on non-current assets held for sale	(368,992)	252,467
Net gain (loss) on financial assets at FVTPL	11,168	(32,039)
Gain (loss) on disposal of investments	450,195	101,105
Gain (loss) on foreign exchange, net	41,843	(51,756)
Impairment loss on non-current assets held for sale	(75,437)	(3,571,301)
Impairment loss on property, plant and equipment	(50,000)	(690,579)
Impairment loss on financial assets measured at cost	-	(56,023)
Others	(273,028)	(1,010,058)
	$ (534,848)	$ (5,052,031)

The Company has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action lawsuit filed at the US Northern District Court of California by a group of passengers who alleged that there was an antitrust violation in December 2007.

After consulting with the lawyers and considering the cost of litigation, the Company settled with the plaintiff in the amount of US$19,500 thousand, and the settlement was recognized in 2017 financial statement. The settlement funds will be divided into four-phase payments in three years.

d. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest expense		
Bonds payable	$ 412,422	$ 319,315
Bank loans	949,483	974,535
Interest on obligations under financial leases	18,080	50,137
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	-	2,814
	$ 1,379,985	$ 1,346,801
Capitalization interest	$ 41,925	$ 216,305
Capitalization rate	1.16%-1.45%	1.31%-1.41%

e. Depreciation and amortization expense

	For the Year Ended December 31	
	2018	2017
Property, plant, equipment	$ 19,324,804	$ 18,339,743
Investment properties	279	279
Intangible assets	191,979	259,129
Depreciation and amortization expense	$ 19,517,062	$ 18,599,151
An analysis of depreciation by function		
Operating costs	$ 18,648,142	$ 17,667,649
Operating expenses	676,941	672,373
	$ 19,325,083	$ 18,340,022
An analysis of amortization by function		
Operating costs	$ 10,597	$ 281
Operating expenses	181,382	258,848
	$ 191,979	$ 259,129

f. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plan	$ 538,915	$ 482,586
Defined benefit plan	1,464,901	1,026,515
	$ 2,003,816	$ 1,509,101

(Continued)

	For the Year Ended December 31	
	2018	2017
Other employee benefits		
Salary expenses	$ 20,910,604	$ 20,287,418
Personnel service expenses	5,791,627	5,578,306
	$ 26,702,231	$ 25,865,724
An analysis of employee benefits expense by function		
Operating costs	$ 23,857,265	$ 22,640,698
Operating expenses	4,848,782	4,734,127
	$ 28,706,047	$ 27,374,825

(Concluded)

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 year ended December 31, 2017, the employees' compensation was $799,768 thousand, respectively, of the base net profit. The employees' compensation and profit bonus for the year ended December 31, 2018 was $51,656 thousand and $594,810 thousand.

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 bonuses and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

29. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
Current year	$ 264,527	$ 148,743
Prior year adjustment	10,592	1,364
Income tax on unappropriated earnings	35	-
Deferred tax		
Current year	1,467,343	883,064
Effect of income tax	(933,932)	-
Income tax expense recognized in profit or loss	$ 808,565	$ 1,033,171

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

	For the Year Ended December 31	
	2018	**2017**
Profit before tax	$ 3,081,249	$ 3,523,963
Income tax expense calculated at the statutory rate (20% for 2018, 17% for 2017)	$ 616,250	$ 599,074
Effect on different tax of subsidiaries govern by other region	7,391	15,435
Effect on adjustment to income tax		
Non-deductible expenses in determining taxable income	20,662	5,593
Tax-exempt income	(25,730)	(95,556)
Additional income tax under the Alternative Minimum Tax Act	-	9,906
Income tax on unappropriated earnings (10%)	35	-
Oversea income tax expense	22,786	17,474
Unrecognized loss carryforwards, investment tax credits and temporary difference	1,088,650	517,071
Adjustments for prior years' tax	10,592	1,364
Adjustments to changes in tax rates and laws	(933,932)	-
Other	1,861	(37,190)
Income tax expense recognized in profit or loss	$ 808,565	$ 1,033,171

It was announced that the Income Tax Law in the ROC. was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to unappropriated earnings will be reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income

	2018	**2017**
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ (4,657)	$ 23,612
Fair value changes of financial assets at FVTOCI	547	-
Hedging instruments fair value revaluation for cash flow hedging	(24,128)	21,807
Actuarial gain or loss on defined benefit plan	187,368	173,691
Effect of income tax	10,893	-
Total income tax recognized in other comprehensive income	$ 170,023	$ 219,110

c. Deferred tax assets and liabilities

For the year ended December 31, 2018

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Acquisition Consolidated	Ending Balance
Deferred tax assets						
Temporary differences						
Defined benefit plans	$ 1,381,538	$ 180,560	$ 195,742	$ -	$ 7,212	$ 1,765,052
Frequent flyer programs	426,106	83,954	-	-	-	510,060
Maintenance reserves	1,507,285	304,563	-	-	-	1,811,848
Allowance for reduction of inventory	239,115	96,596	-		-	335,711
Others	1,143,871	(397,832)	(18,546)	479	1,427	729,399
Loss carryforwards	821,417	(821,417)	-	-	-	-
	$ 5,519,332	$ (553,576)	$ 177,196	$ 479	$ 8,639	$ 5,152,070
Deferred tax liabilities						
Temporary differences						
Unrealized foreign exchange gains	$ 915	$ (898)	$ -	$ -	$ -	$ 17
Depreciation difference from fixed assets	31,010	(31,010)	-	-	-	-
Others (Note)	165,630	11,743	7,173	3,884	-	188,430
	$ 197,555	$ (20,165)	$ 7,173	$ 3,884	$ -	$ 188,447

Note: Included adjustments on initial application due to tax rate changes $6,873 thousand from IFRS 9.

For the year ended December 31, 2017

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plans	$ 1,351,205	$ (143,358)	$ 173,691	$ -	$ 1,381,538
Frequent flyer programs	421,695	4,411	-	-	426,106
Maintenance reserves	1,250,075	257,210	-	-	1,507,285
Allowance for reduction of inventory	200,841	38,274	-	-	239,115
Others	651,976	469,902	22,623	(630)	1,143,871
Loss carryforwards	2,380,873	(1,559,456)	-	-	821,417
	$ 6,256,665	$ (933,017)	$ 196,314	$ (630)	$ 5,519,332
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gains	$ -	$ 915	$ -	$ -	$ 915
Depreciation difference from fixed assets	85,949	(54,939)	-	-	31,010
Others	187,661	4,071	(22,796)	(10,179)	158,757
	$ 273,610	$ (49,953)	$ (22,796)	$ (10,179)	$ 190,682

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

	December 31	
	2018	**2017**
Loss carryforwards		
2019	$ 11,790,770	$ 10,900,000
2020	-	-
2021	2,899,496	17,929
2022	620,769	9,617
2023	-	71,861
2024	-	34,048
2025	18,124	221,121
2026	818,198	1,184,297
2027	68,415	68,415
2028	1,513,001	-
	$ 17,728,773	$ 12,507,288
Difference in depreciation	$ 90,350	$ 323,173

d. Unused tax loss carryforwards as of December 31, 2018 were as follows:

Expiry Year	**Unused Amount**
China Airlines, Ltd.	
2019	$ 11,790,770
2021	2,899,496
2022	619,799
2026	202,699
2028	1,326,528
	$ 16,839,292
Mandarin Airline Co., Ltd.	
2026	$ 584,023
2028	83,322
	$ 667,345
Cal Hotel Co., Ltd.	
2022	$ 970
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	
2025	$ 18,124
2026	31,476
2027	68,415
2028	103,151
	$ 221,166

e. Income tax assessment

The income tax returns for 2016 of the Company and its subsidiaries, have been examined by the tax authorities.

30. EARNING PER SHARE

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

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 0.33	$ 0.40
Diluted earnings per share	$ 0.32	$ 0.39

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share	$ 1,790,361	$ 2,208,066
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	81,463	24,801
Earnings used in the computation of diluted earnings per share	$ 1,871,824	$ 2,232,867

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	5,453,579	5,468,030
Effect of potentially dilutive ordinary shares:		
Convertible bonds	457,481	145,763
Employees' compensation or bonuses issued to employees	8,821	70,259
Weighted average number of ordinary shares used in the computation of diluted earnings per share	5,919,881	5,684,052

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

31. BUSINESS COMBINATIONS

As stated in Note 14, 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	49,479
Total assets	1,707,785
Liabilities	(486,356)
Identifiable net assets	$ 1,221,429

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 interest 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	$ 1,823,950
Profit	$ 229,665

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 $171,039,102 thousand and the profit from continuing operations would have been $2,310,159 thousand. 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.

32. CAPITAL MANAGEMENT

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

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

33. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

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

	December 31			
	2018		2017	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities				
Bonds payable	$ 33,919,610	$ 31,651,865	$ 25,417,100	$ 25,818,511
Loans and debt	76,395,635	74,404,225	85,058,177	87,070,820

Some long-term borrowings and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of December 31, 2018 and 2017, the fair values of long-term borrowings and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.68% and 0.75%, respectively, prevailing in the market for long-term borrowings (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

2) Fair value measurements recognized in the balance sheets

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

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

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

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

December 31, 2018

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL				
Domestic money market funds	$ 206,001	$ -	$ -	$ 206,001

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	$ -	$ -	$ 21,746	$ 21,746
Unlisted shares - foreign	-	-	110,445	110,445
	$ -	$ -	$ 132,191	$ 132,191
Financial liabilities at FVTPL				
Derivative instruments	$ -	$ 221	$ -	$ 221
Financial assets for hedging	$ -	$ 28,005	$ 4,901	$ 32,906
Financial liabilities for hedging	$ -	$ 560	$ -	$ 560

(Concluded)

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Beneficial certificates	$ 306,839	$ -	$ -	$ 306,839
Financial liabilities at FVTPL				
Derivative instruments	$ -	$ 9,581	$ -	$ 9,581
Derivative financial assets for hedging	$ -	$ 293	$ -	$ 293
Derivative financial liabilities for hedging	$ -	$ 89,289	$ -	$ 89,289

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

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign exchange forward contracts and interest rate swaps	Discounted cash flows. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

The fair values of foreign exchanges and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. Changes in the implied fluctuations used in isolation would result in a increase or decrease in the fair value 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 on September 30, 2018 ranged from 0.85 to 18.68, and the liquidity discount is 80%.

The movements of Level 3 financial instruments are as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1,2018	$ -	$ 84,075
Adjustments on initial application of IFRS 9	-	47,510
Other comprehensive income recognized during the period	4,901	606
Balance at September 30,2018	$ 4,901	$ 132,191

There were no financial assets measured using Level 3 fair value measurements in 2017.

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.

b. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Financial assets at FVTPL	$ 206,001	$ 306,839
Available-for-sale financial assets (Note 3)	-	84,075
Financial assets for hedging	32,906	-
Derivative financial assets for hedging	-	293
Loans and receivables (Note 1)	-	35,276,119
Financial assets at amortized cost (Note 4)	40,496,618	-
Financial assets at FVTPCI - equity instrument investment	132,191	-
Financial liabilities		
Financial liabilities at FVTPL	221	9,581
Financial liabilities for hedging	560	-
Derivative financial liabilities for hedging	-	89,289
Financial liabilities at amortized cost (Note 2)	127,271,892	127,928,250

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

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term debts, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, part of other current liabilities, part of other non-current liabilities and guarantee deposits.

Note 3: The balances include financial assets measured at cost.

Note 4: The balances include loans and receivables 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.

c. Financial risk management objectives and policies

The Group has risk management and hedging strategies to respond to changes in the economic and financial environment and in the fuel market. To reduce the financial risks from changes in interest rates, in 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 foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

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

The following details the Group's sensitivity to a one dollar increase or decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies (i.e. the US dollar). This is the sensitivity rate 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 a one US dollars increase/decrease against the New Taiwan dollar.

When New Taiwan dollar strengthens one dollar against the US dollar and all other variables were held constant, there will be an increase in pre-tax profit in 2018 of $142,244 thousand and a decrease in pre-tax profit in 2017 of $60,437 thousand.

For the year ended December 31, 2018

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.

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	NTD/USD	NTD2,265,231/ USD13,620	2019.1.7-2019.12.26	28.3-30.9	Financial assets for hedging/liabilities for hedging	$ 28,005	$ 560

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in US dollars and Aircraft prepayment) are $27,445 thousand.

For the year 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	$ 80,440	$ (22,415)	(Note)
Aircraft prepayments	23,884	-	
	$ 104,324	$ (22,415)	

Note: Increase in operating costs.

And the amount of gains and losses on hedging instruments for the three months ended December 31, 2018 reclassified from profit or loss to prepayments for equipment was $12,118 thousand.

b) Interest rate risk

The Group enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	December 31	
	2018	2017
Fair value interest rate risk	$ 34,919,610	$ 27,537,100
Cash flow interest rate risk	75,031,978	85,311,720

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 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 higher and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2018 would have decreased by $187,580 thousand.

Had interest rates increased one yard (25 basis) points higher and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2017 would have decreased by $213,279 thousand.

c) Other price risk

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

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	USD	NT$4,901	2019.1.31-2019.12.31	US$72-US$88	Financial assets for hedging	$ 4,901	$ -

Hedge accounting is continued to be applied to the abovementioned hedging instruments continue to be applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is $4,901 thousand.

For the year 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 hedges - fuel options	$ 4,901	$ (9,421)	(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 Year Ended December 31			
	2018		2017	
	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 of 5%	$ -	$ -	$ -	$ -
Fuel price decrease of 5%	-	-	-	-

d) Hedge accounting in 2017

The relevant hedging strategies of the Group in 2017 are the same as the aforementioned in 2018, except for the following special instructions.

Derivative financial instrument for hedging

	December 31, 2017
Derivative financial assets under hedge accounting	
Foreign exchange forward contracts	$ 293
Current	$ 293
Non-current	-
	$ 293
Derivative financial liabilities under hedge accounting	
Foreign exchange forwards contracts	$ 89,289
Current	$ 82,295
Non-current	6,994
	$ 89,289

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

Cash flow hedges

Foreign exchange forward contracts

The Group entered into foreign exchange forward contracts to minimize cash flow exposure related to fuel payments and aircraft payments, which will be paid in US dollars.

December 31, 2017

	Currency	Maturity Date	Notional Amount (In Thousands)
Buy forward contracts	NTD/USD	2018.1.5-2019.6.21	NTD7,105,942/USD236,924

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

	December 31, 2017
Increase in operating costs	$ (52,034)
Increase in finance costs	(2,814)
Other foreign exchange losses	(21,773)
	$ (76,621)

The amount of gains and losses on hedging instruments for the year ended December 31, 2017 reclassified from profit or loss to prepayments for equipment was $100,367 thousand.

2) Credit risk

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

Operation - related credit risk

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

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers. Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

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

3) Liquidity risk

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

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.

December 31, 2018

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.3104	$ 85,541	$ 555,983	$ 2,181	$ 843	$ -
Floating interest rate liabilities	1.8105	7,129,543	7,723,817	14,797,669	27,346,290	20,810,464
Fixed interest rate liabilities	0.1034	2,000,517	-	-	-	-
Derivative instruments		239,138	-	-	-	-
Bonds payable	1.3905	4,877,118	1,122,203	6,496,270	24,339,179	1,051,418
		$ 14,331,857	$ 9,402,003	$ 21,296,120	$ 51,686,312	$ 21,861,882

December 31, 2017

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.2090	$ 236,138	$ 1,406,511	$ 193,648	$ 455,544	$ -
Floating interest rate liabilities	1.1251	7,270,988	12,906,591	18,465,141	28,374,270	18,151,425
Fixed interest rate liabilities	1.1800	5,900	17,700	2,023,600	-	-
Derivative instruments	-	28,410	53,885	6,994		
Bonds payable	1.4142	2,790,923	1,911,231	301,932	20,651,932	1,014,142
		$ 10,332,359	$ 16,295,918	$ 20,991,315	$ 49,481,746	$ 19,165,567

Loan commitments

	December 31	
	2018	2017
Unused bank loan limit (unsecured)	$ 17,337,000	$ 25,181,000

34. RELATED-PARTY TRANSACTIONS

The transactions, accounts balances, income and expenses between related parties were eliminated from the consolidated report and, therefore, were not disclosed in this note. Except for the disclosures stated in other notes, transactions between the Group and its related parties are disclosed below:

a. Related parties' names and relationships

Name	Relationship with the Company
Kaohsiung Catering Services	Associate (become subsidiary in March 2018)
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate (disposal in January 2018)
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
NORDAM Asia 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 relative

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31 2018	2017
Other income	Major shareholder of the Company	$ 28,670	$ 31,971
	Associate	$ 523	$ 1,938
	Joint venture investment	$ 41,410	$ 46,461

c. Purchases

Related Party Type	For the Year Ended December 31 2018	2017
Major shareholder of the Company	$ 64,188	$ 71,852
Associate	$ 501,609	$ 745,686
Joint venture investment	$ 1,912,995	$ 1,857,684

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

Related Party Type	December 31 2018	2017
Joint venture investment	$ 7,589	$ 6,431
Major shareholder of the Company	1,454	1,928
	$ 9,043	$ 8,359

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	December 31 2018	2017
Associate	$ 54,948	$ 116,525
Joint venture investment	474,499	469,827
Major shareholder of the Company	3,368	4,454
	$ 532,815	$ 590,806

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

f. Leases of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental on usage hours. In 2018 and 2017, the Company had paid rentals of about $64,188 thousand and $71,852 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2018		2017	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
CAL Park	$ 3,850,000	$ 2,339,700	$ 3,850,000	$ 2,850,000
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	318,611
Tigerair Taiwan	1,081,792	418,491	1,055,604	405,998
Taiwan Air Craft Maintenance	2,000,000	605,457	-	-

h. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 44,551	$ 46,805
Post-employment benefits	3,295	4,007
	$ 47,846	$ 50,812

The remuneration of directors and key executives was determined by the remuneration committee having 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:

	December 31	
	2018	2017
Property, plant and equipment	$ 38,337,066	$ 39,821,666
Restricted assets - non-current		
Pledged certificate deposits	118,764	161,398
	$ 38,455,830	$ 39,983,064

36. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2017, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircraft from Airbus, with the option to buy six more A350-900 aircraft, as of December 31, 2018, fourteenth of the aircraft had been handed over to the Company.

b. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircraft, and the total list price of the six aircraft was $120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, as of December 31, 2018, two of the aircraft has been handed over to the company, and the total list price of the lefts four aircraft was $80,000 thousand, which has been paid in the amount of US$10,190 thousand (recognized as prepayments for aircraft). Additionally, Mandarin Airlines signed a lease contract for three ATR72-600 aircraft, which were delivered in 2017.

c. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. 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.

   The original total expenditure of the previous main construction project was $8,490,000 thousand. However, TACT filed an arbitration for the total amount of expenditure in 2012 to revise the total amount to $6,840,000 thousand.

   As of December 31, 2018, 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 December 31, 2018, the cumulated consultant service expense and construction equipment had amounted to $481,776 thousand (VAT included) and $5,143,529 thousand (VAT included), respectively. Upon completion of the projects, the amount of $468,755 thousand (VAT included) and $5,143,510 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 non-operating 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%.

d. 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.

   AL 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 assignation 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.

e. 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 $1.964 billion. As of December 31, 2018, $1,547,499 thousand was paid (recognized as construction in progress).

37. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike at 0:00 February 8, 2019, and the flights resumed normal operation on February 14, 2019. The initial estimated compensation for customer losses and various expenses were $154 million. For other information, refer to “Pubic Information Observatory” of the Taiwan Stock Exchange.

38. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 533,109	30.7692	$ 16,403,335
EUR	20,519	35.2113	722,514
HKD	302,930	3.9231	1,188,425
JPY	6,479,942	0.2778	1,800,967
CNY	394,503	4.4803	1,767,491
Financial liabilities			
Monetary items			
USD	391,865	30.7692	12,057,386
EUR	6,516	35.2113	229,440
HKD	79,716	3.9231	310,978
JPY	5,586,337	0.2778	1,552,067
CNY	150,529	4.4803	674,413

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 351,902	29.8507	$ 10,504,521
EUR	21,358	35.7143	762,786
HKD	293,872	3.8183	1,122,091
JPY	6,147,548	0.2648	1,627,871
CNY	469,241	4.5830	2,150,530
Financial liabilities			
Monetary items			
USD	418,839	29.8507	12,503,415
EUR	5,971	35.7143	213,250
HKD	87,927	3.8183	335,732
JPY	4,972,250	0.2648	1,316,652
CNY	150,678	4.5830	690,557

For the years ended December 31, 2018 and 2017, the Group's net foreign exchange gain (losses) were $41,843 thousand and $(51,756) 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.

39. 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: Table 3 (attached)

    5) Acquisitions of individual real estates at costs or price of at least NT$100 million or 20% of the paid-in capital: None

    6) Disposals of individual real estates at costs or prices of at least NT$100 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 4 (attached)

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

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

    10) Derivative financial transactions (Notes 7 and 8)

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

c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (attached)

40. SEGMENT INFORMATION

a. Segment information

The Group mainly engages in air transportation services for passengers and cargo; the services include airport service, storage service, and other air transportation services which are below the financial threshold for an operating segment of the Group. Therefore, the Group's main reportable segment is air transportation. The accounting policies of the reportable segment are consistent with the accounting policies described in Note 4.

	For the Year Ended December 31, 2018			
	Air Transportation	**Others**	**Adjustments and Write-offs**	**Total**
Operating revenue	$ 167,370,925	$ 10,430,156	$ (7,089,474)	$ 170,711,607
Operation profit and losses	$ 2,617,116	$ 1,429,884	$ (24,617)	$ 4,022,383
Interest revenue				330,710
Investments income accounted for using the equity method				367,246
Revenue				146,667
Financial costs				(1,369,351)
Expenses				(416,406)
Profit before income tax				$ 3,081,249
Identifiable assets	$ 154,007,329	$ 11,036,945	138,787	$ 165,183,061
Investments accounted for using the equity method				2,200,149
Assets				62,753,372
Total assets				$ 230,136,582

	For the Year Ended December 31, 2017			
	Air Transportation	**Others**	**Adjustments and Write-offs**	**Total**
Operating revenue	$ 154,512,384	$ 7,984,517	$ (6,375,116)	$ 156,121,785
Operation profit and losses	$ 7,909,490	$ 916,670	$ -	$ 8,826,160
Interest revenue				210,264
Investments income accounted for using the equity method				536,236
Revenue				626,533
Financial costs				(1,346,801)
Expenses				(5,328,429)
Profit before income tax				$ 3,523,963
Identifiable assets	$ 147,311,342	$ 8,381,813		$ 155,693,155
Investments accounted for using the equity method				2,507,346
Assets				67,699,131
Total assets				$ 225,899,632

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2018 and 2017 are listed below:

	For the Year Ended December 31, 2018								
	America	**Northeast Asia**	**Southeast Asia**	**Europe**	**Australia**	**China**	**Domestic**	**Adjustment and Eliminations**	**Consolidation**
Operating revenue	$ 43,278,890	$ 38,464,450	$ 34,132,301	$ 16,092,452	$ 6,760,146	$ 22,114,227	$ 16,958,615	$ (7,089,474)	$ 170,711,607
Operation profit and losses	$ 582,721	$ 2,717,255	$ (2,412,823)	($ 756,263)	$ (904,416)	$ 2,454,935	$ 2,365,591	($ 24,617)	$ 4,022,383
Interest revenue									330,710
Investments income accounted for using the equity method									367,246
Revenue									146,667
Interest expense									(1,369,351)
Expenses									(416,406)
Profit before income tax									$ 3,081,249
Identifiable assets	$ 1,328,004	$ 15,520	$ 94,631	$ 2,796	$ 2,619	$ 10,174	$ 163,590,530	$ 138,787	$ 165,183,061
Investments accounted for using the equity method									2,200,149
Assets									62,753,372
Total assets									$ 230,136,582

	For the Year Ended December 31, 2017								
	America	**Northeast Asia**	**Southeast Asia**	**Europe**	**Australia**	**China**	**Domestic**	**Adjustment and Eliminations**	**Consolidation**
Operating revenue	$ 43,823,702	$ 32,933,348	$ 34,290,529	$ 13,226,468	$ 4,727,678	$ 18,990,132	$ 14,505,044	$ (6,375,116)	$ 156,121,785
Operation profit and losses	$ 2,066,002	$ 2,498,885	$ (932,071)	$ 818,324	$ (272,090)	$ 2,503,460	$ 2,143,650	$ -	$ 8,826,160
Interest revenue									210,264
Investments income accounted for using the equity method									536,236
Revenue									626,533
Interest expense									(1,346,801)
Expenses									(5,328,429)
Profit before income tax									$ 3,523,963
Identifiable assets	$ 1,324,134	$ 18,838	$ 91,893	$ 4,407	$ 3,616	$ 9,178	$ 154,241,089	$ -	$ 155,693,155
Investments accounted for using the equity method									2,507,346
Assets									67,699,131
Total assets									$ 225,899,632

TABLE 1

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limit on Each Counter-party's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	CAL Park	100% subsidiary	$ 11,416,314	$ 3,850,000	$ 3,850,000	$ 2,339,700	$ -	6.74	$ 28,540,786	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,416,314	1,080,000	1,080,000	-	-	1.89	28,540,786	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,416,314	1,087,224	1,081,792	418,491	-	1.90	28,540,786	Y	N	N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,416,314	2,000,000	2,000,000	605,457	-	3.50	28,540,786	Y	N	N

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

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

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2018 Number of Shares/Units	December 31, 2018 Carrying Amount	December 31, 2018 Percentage of Ownership (%)	December 31, 2018 Market Value or Net Asset Value	Note
China Airlines ("Parent company")	Shares							
	Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,495,305	$ 56,018	13.59	$ 61,620	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	5,602	-		
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	21,746	11.00	21,746	
	Jardine Air Terminal Services	-	Financial assets at FVTPL - current	12,000,000	-	15.00	-	
	The Grand Hi Lai Hotel	-	Financial assets at FVTPL - current	4,021	-	0.02	-	
Mandarin Airlines	Shares							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	22,821	-	22,821	-
	Beneficiary certificates							
	Barclays America Bonds Fund	-	Financial assets at FVTPL - current	1,000,000	30,837	-	30,837	-
Cal-Asia Investment	Shares							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets at FVTPL - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at FVTOCI - non-current	-	48,825	5.45	48,825	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	3,492,097	36,041	-	36,041	-
Taiwan Airport Services	Shares							
	TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.4	-	-
	Beneficial certificates							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at FVTPL - current	787,007	9,042	-	9,042	-
Hwa Hsia	Shares							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	814,152	8,956	-	8,956	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,721	-	4,721	-
Kaohsiung Catering Services	Beneficiary certificates							
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	7,939,173	125,360	-	125,360	-

(Continued)

Note 1: The subsidiary's net asset value was $61,620 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2018.

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

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

(Concluded)

TABLE 3

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
China Airlines, Ltd.	Shares													
	Asian Compressor Technology Services	Investments accounted for using the equity method	MB Aerospace	Non-related party	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -
	Kaohsiung Catering Services	Investments accounted for using the equity method	TransAsia Airlines	Non-related party	-	-	-	-	-	-	-	-	-	-
Tigerair Taiwan Co., Ltd.	NT-dollar 100% principal-protected structural products	Financial assets at FVTPL - current	President Securities Corp.	Non-related party	-	300,000	-	3,030,000	-	3,330,000	3,330,000	-	-	-

Note 1: The marketable securities in this table refer to shares, bonds, beneficial certificates and the securities derived from the above items.

Note 2: Marketable securities which are recognized as investments accounts for using the equity method are required to be filled in the second column.

Note 3 The cumulative amount of acquired and disposed of marketable securities are required to be calculated separately to determine whether they are at least NT$300 million or 20% of the paid-in capital.

Note 4 Paid-in capital refers to paid-in capital of the indicated parent company. If the shares issued by an issuer have no par value or a par value other than NT$10 per share, the threshold of 20% of paid-in capital, as set out in the preceding item, shall be replaced by 10% of equity attributable to owners of the indicated parent company, as stated in the respective balance sheet.

CHINA AIRLINES, LTD. AND INVESTEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(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	$ 599,309	0.44	30 days	$ -	-	$ (46,076)	(5.40)	-
	Taiwan Airport Services	Subsidiary	Purchase	434,538	0.32	40 days	-	-	(74,816)	(8.77)	-
	CAL Park	Subsidiary	Purchase	231,288	0.17	2 months	-	-	(121,426)	(14.24)	-
	Cal Hotel	Subsidiary	Purchase	107,273	0.08	1 months	-	-	(13,982)	(1.64)	-
	Mandarin Airlines	Subsidiary	Sale	(2,155,732)	(1.43)	2 months	-	-	235,253	2.35	-
	Mandarin Airlines	Subsidiary	Purchase	236,744	0.17	2 months	-	-	(278,323)	(32.64)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,247,054	0.91	40 days	-	-	(365,115)	(42.82)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	462,577	0.34	60 days	-	-	(74,641)	(8.75)	-
	Hua Hsia	Subsidiary	Purchase	333,255	0.24	2 months	-	-	(54,352)	(6.37)	-
	Tigerair Taiwan	Subsidiary	Sale	(336,530)	(0.22)	1 months			42,084	0.42	
	Tigerair Taiwan	Subsidiary	Purchase	141,030	0.10	1 months	-	-	(21,538)	(2.53)	-
	Eastern United International Logistics	Equity-method investee	Purchase	238,356	0.17	2 months	-	-	(22,145)	(2.60)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,784,963	1.30	90 days	-	-	(454,920)	(53.35)	-
	China Aircraft Services	Equity-method investee	Purchase	180,238	0.13	30 days	-	-	(31,988)	(3.75)	-
	China Pacific Laundry Services	Equity-method investee	Purchase	128,033	0.09	2 months	-	-	(19,579)	(2.30)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	152,652	2.71	1 months	-	-	(24,608)	(2.02)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	179,798	(3.28)	1 months	-	-	(17,699)	(2.96)	-
Cal Hotel	CAL Park	Same parent company	Purchase	114,281	28.70	1 months			(388)	(17.50)	

CHINA AIRLINES, LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(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	$ 235,253	Note	$ -	-	$ 235,253	$ -
Mandarin Airlines	China Airlines	Parent company	278,323	Note	-	-	276,142	-
China Pacific Catering Services	China Airlines	Parent company	454,920	3.90	-	-	301,208	-
CAL Park	China Airlines	Parent company	121,426	1.90	-	-	121,426	-
Taoyuan International Airport Service	China Airlines	Parent company	365,115	3.48	-	-	362,163	-

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

TABLE 6

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands of New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2018	December 31, 2017	Number of Shares/Units	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	$ 1,507,445	$ 3,143	$ 3,143	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,201,109	24,824	22,878	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,533,244	359,195	193,964	-
	Cal-Dynasty International	Los Angeles, USA	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,266,921	43,975	43,975	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	805,157	524,339	267,413	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	755,619	282,254	138,305	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	494,098	26,115	26,115	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	454,149	188,247	176,820	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	497,362	32,012	6,402	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	266,775	133,894	63,399	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	140,240	21,494,637	53.67	662,817	296,678	138,460	Note 5
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	461,239	25,274	25,274	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	166,901	30,355	16,695	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	89,101	14,616	14,439	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	26,946	1,437	1,438	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	26,059	(2,297)	(1,172)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,996	5,137	1,284	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	1,805,921	981,713	883,542	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	1,128,138	(103,410)	(103,410)	
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	2,450	2,450	245,000	49.00	2,358	(83)	(41)	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	200,658	981,713	98,171	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,068	133,894	1,442	
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	44,193	19,703	6,865	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	388,910	27,353	27,353	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,870	3	2	Note 4

Note 1: Adopted the treasury shares 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: Investee acquired by merger.

Note 5: Difference cause by acquisition.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands of New Taiwan Dollars/Renminbi/US Dollars)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,140,143 (RMB 254,480)	Indirect (Note 1)	$ 128,799 (US$ 4,186)	$ -	$ -	$ 128,799 (US$ 4,186)	$ 80,455 (RMB 17,650)	14.00	$ 11,307 (RMB 2,471)	$ 222,073 (RMB 49,567)	$ 86,208 (US$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,724 (RMB 14,000)	Indirect (Note 1)	59,921 (US$ 1,947)	-	-	59,921 (US$ 1,947)	114,760 (RMB 25,175)	14.00	16,130 (RMB 3,525)	116,600 (RMB 26,025)	26,933 (US$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,135,077 (US$ 36,890)	Indirect (Note 1)	66,191 (US$ 2,151)	-	-	66,191 (US$ 2,151)	-	2.59	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	358,862 (US$ 11,663)	Indirect (Note 1)	19,569 (US$ 636)	-	-	19,569 (US$ 636)	-	5.45	-	48,825 (RMB 10,898)	-

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$274,481 (US$8,920)	$665,586 (Note 3)	$36,028,250 (Note 4)

(Continued)

Taiwan Airport Services

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,140,143 (RMB 254,480)	Indirect (Note 5)	$ 123,642 (US$ 4,018)	$ -	$ -	$ 123,642 (US$ 4,018)	$ 80,455 (RMB 17,650)	14	$ 11,264 (RMB 2,471)	$ 220,818 (RMB 49,287)	$ 117,118 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,724 (RMB 14,000)	Indirect (Note 5)	59,285 (US$ 1,927)	-	-	59,285 (US$ 1,927)	114,760 (RMB 25,175)	14	16,066 (RMB 3,525)	116,817 (RMB 26,073)	43,280 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$182,926 (US$5,945)	$182,926 (US$5,945)	$338,046 (Note 4)

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

Note 2: The inward remittance of earnings in 2018 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, “Investment or Technical Cooperation in Mainland China Adjustment Rule,” 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 US dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)

TABLE 8

CHINA AIRLINES, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Mandarin Airlines	a	Passenger revenue	$ 1,891,339	The same as ordinary transactions	1.10
		Mandarin Airlines	a	Other operating revenue	264,393	The same as ordinary transactions	0.15
		Tigerair Taiwan Co., Ltd.	a	Other operating revenue	336,530	The same as ordinary transactions	0.20
		Taoyuan International Airport Services	a	Airport service costs	1,247,054	The same as ordinary transactions	0.73
		Taiwan Airport Service	a	Airport service costs	434,538	The same as ordinary transactions	0.25
		Hwa Hsia	a	Airport service costs	333,255	The same as ordinary transactions	0.19
		Mandarin Airlines	a	Passenger costs	236,744	The same as ordinary transactions	0.14
		Tigerair Taiwan Ltd.	a	Passenger costs	141,030	The same as ordinary transactions	0.08
		Kaohsiung Catering Services	a	Passenger service cost	462,557	The same as ordinary transactions	0.27
		Taiwan Air Cargo Terminal	a	Other operating costs	599,309	The same as ordinary transactions	0.35
		CAL Park	a	Other operating costs	231,288	The same as ordinary transactions	0.14
		Cal Hotel Co., Ltd.	a	Other operating costs	107,273	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Accounts receivable - related parties	235,253	The same as ordinary transactions	0.10
		Mandarin Airlines	a	Accounts payable - related parties	278,323	The same as ordinary transactions	0.12
		Taoyuan International Airport Services	a	Accounts payable - related parties	365,115	The same as ordinary transactions	0.16
		CAL Park	a	Accounts payable - related parties	121,426	The same as ordinary transactions	0.05
		Mandarin Airlines	a	Bonds payable - non-current	250,000	The same as ordinary transactions	0.11
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	599,309	The same as ordinary transactions	0.35
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger costs	1,891,339	The same as ordinary transactions	1.10
		China Airlines, Ltd.	b	Operating expenses	264,393	The same as ordinary transactions	0.15
		Taiwan Airport Service	c	Airport service costs	152,652	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Passenger revenue	236,744	The same as ordinary transactions	0.14
		China Airlines, Ltd.	b	Accounts receivable - related parties	278,323	The same as ordinary transactions	0.12
		China Airlines, Ltd.	b	Financial assets at amortized costs	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes payable and accounts payable - related parties	235,253	The same as ordinary transactions	0.10
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	1,247,054	The same as ordinary transactions	0.73
		China Airlines, Ltd.	b	Accounts receivable - related parties	365,115	The same as ordinary transactions	0.16
		Tigerair Taiwan Co., Ltd.	c	Operating revenue	179,798	The same as ordinary transactions	0.11
4	Taiwan Airport Service	China Airlines, Ltd.	b	Operating revenue	434,538	The same as ordinary transactions	0.25
		Mandarin Airlines	c	Operating revenue	152,652	The same as ordinary transactions	0.09

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
5	Tigerair Taiwan Co., Ltd.	China Airlines, Ltd.	b	Operating expense	$ 336,530	The same as ordinary transactions	0.20
		China Airlines, Ltd.	b	Passenger revenue	141,030	The same as ordinary transactions	0.08
		Taoyuan International Airport Services	b	Airport service costs	179,798	The same as ordinary transactions	0.11
6	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	333,255	The same as ordinary transactions	0.19
7	Kaohsiung Catering Services	China Airlines, Ltd.	b	Operating revenue	462,557	The same as ordinary transactions	0.27
8	CAL Park	China Airlines, Ltd.	b	Operating revenue	231,288	The same as ordinary transactions	0.14
		Cal Hotel Co., Ltd.	c	Operating revenue	114,281	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Accounts receivable - related parties	121,426	The same as ordinary transactions	0.05
9	Cal Hotel Co., Ltd.	China Airlines, Ltd.	b	Operating revenue	107,273	The same as ordinary transactions	0.06
		CAL Park	c	Other operating expense	114,281	The same as ordinary transactions	0.07

Note 1: The three directional types for transactions by business relationship between China Airlines, Ltd. and its subsidiaries are 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)