

China Airlines, Ltd.

**Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of China Airlines, Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

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 Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the 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 financial statements of the Company 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. For the year ended December 31, 2019, passenger revenue was NT\$96,176,865 thousand. Refer to Notes 4 and 26 to the accompanying 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.

Initial Application of IFRS 16 (Leases) - Aircraft

In accordance with IFRS 16 “Leases”, aircrafts leases initially classified as finance leases under IAS 17 should be recognized as Right-of-use assets and lease liabilities in the balance sheet. As of December 31, 2019, the carrying amount of right-of-use assets and lease liabilities (including financial liabilities for hedging) relating to aircrafts leases are NT\$53,870,134 thousand and NT\$52,153,682 thousand, respectively. Refer to Notes 4 and 20 to the accompanying financial statements for related detailed information.

China Airlines leased ten 777-300ER planes, fifteen A330-300 planes and fifteen 737-800 planes, for operation. Because the lease term of aircrafts is higher and the amount of rental is higher, the percentage of right-of-use assets and lease liabilities of the aircrafts in the balance sheet is high. The parameters and lease terms are determined by the management, and the calculation of the lease liabilities will affect the carrying amount and depreciation expense of the right-of-use assets and lease liabilities (including financial liabilities for hedging) relating to aircrafts. Therefore, we identified initial application of IFRS 16-Aircrafts as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the effectiveness of the information system related to the calculation of lease liabilities.
2. We selected one of the rental payments schedule of the aircrafts from the lease calculation system, to recalculate amount of the lease liabilities balance and financial cost and amortization of right-of-use, and related carrying amount. Also, we selected several aircraft lease contracts from the carrying amounts of aircraft lease liability, and checked if there was any difference between contracted rental and rentals in the aircraft rental payment schedule. And we checked if the lease term used the rental payment schedule was consistent with the contract.

Other Matter - Audit by Other Independent Auditors

Some investments accounted for using the equity method and disclosure information in Note 13 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, 2019, the aforementioned investment accounted for using the equity method was NT\$1,946,328 thousand, representing 0.72% of total assets. For the year ended December 31, 2019, comprehensive income (including share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using the equity method) was NT\$691,115 thousand.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements for the year ended December 31, 2019 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 Jui-Chan Huang and Shiuh-Ran, Cheng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 18, 2020

Notice to Readers

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

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

CHINA AIRLINES, LTD.

BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	\$ 20,626,014	8	\$ 18,688,022	9
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30)	434	-	-	-
Financial assets at amortized cost (Notes 9 and 30)	1,460,450	-	2,310,000	1
Financial assets for hedging - current (Notes 4 and 30)	9,588	-	27,354	-
Notes and accounts receivables, net (Notes 4, 10 and 30)	7,694,431	3	9,280,662	4
Accounts receivables - related parties (Note 31)	232,386	-	298,311	-
Other receivables	560,819	-	656,790	-
Current tax assets (Notes 4 and 27)	52,776	-	15,810	-
Inventories, net (Notes 4 and 11)	8,246,515	3	8,451,892	4
Non-current assets held for sale (Notes 4 and 12)	-	-	46,154	-
Other current assets (Note 17)	2,106,199	1	3,157,864	2
Total current assets	40,989,612	15	42,932,859	20
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 30)	107,856	-	83,366	-
Investments accounted for using the equity method (Notes 4 and 13)	13,482,877	5	13,158,355	6
Property, plant and equipment (Notes 4, 14 and 32)	131,029,886	49	149,029,054	69
Right-of-use assets (Notes 4, 20 and 32)	64,262,830	24	-	-
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	971,298	-	979,708	1
Deferred tax assets (Notes 4 and 27)	4,757,142	2	4,561,346	2
Other non-current assets (Notes 17, 20 and 30)	11,227,556	4	2,122,085	1
Total non-current assets	227,886,893	85	171,981,362	80
TOTAL	\$ 268,876,505	100	\$ 214,914,221	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 30)	\$ 11,749	-	\$ 221	-
Financial liabilities for hedging - current (Notes 4, 20 and 30)	8,610,015	3	239	-
Notes and accounts payable (Note 30)	1,222,410	-	1,198,647	1
Contract liabilities current (Notes 4 and 22)	18,584,287	7	17,065,481	8
Accounts payable - related parties (Note 31)	1,469,434	1	1,583,684	1
Other payables (Notes 21 and 26)	10,892,203	4	11,739,301	5
Provisions - current (Notes 4 and 23)	-	-	268,901	-
Lease liabilities - current (Notes 4 and 20)	695,215	-	-	-
Bonds payable and put option of convertible bonds - current portion (Notes 4, 19, 30 and 31)	10,000,000	4	4,445,900	2
Loans and debts - current portion (Notes 18, 30 and 32)	13,708,320	5	15,335,005	7
Capital lease obligations - current portion (Notes 4, 20, 30, 31 and 33)	-	-	596,000	-
Other current liabilities	2,806,540	1	2,946,455	1
Total current liabilities	68,000,173	25	55,179,834	25
NON-CURRENT LIABILITIES				
Financial liabilities for hedging - non-current (Notes 4, 20 and 30)	42,420,205	16	-	-
Bonds payable (Notes 4, 19, 30 and 31)	22,352,625	8	28,773,710	13
Loans and debts (Notes 18, 30 and 32)	48,618,168	18	56,827,738	27
Lease liabilities - non-current (Notes 4 and 20)	10,909,262	4	-	-
Contract liabilities (Notes 4 and 22)	2,236,311	1	1,903,665	1
Provisions (Notes 4 and 23)	9,431,736	4	7,730,114	4
Deferred tax liabilities (Notes 4 and 27)	399,253	-	21,195	-
Accrued pension costs (Notes 5 and 24)	7,588,745	3	6,932,783	3
Other non-current liabilities	366,255	-	463,610	-
Total non-current liabilities	144,322,560	54	102,652,815	48
Total liabilities	212,322,733	79	157,832,649	73
EQUITY (Notes 19 and 25)				
Share capital	54,209,846	20	54,209,846	25
Capital surplus	2,488,907	1	1,241,214	1
Retained earnings				
Legal reserve	466,416	-	351,923	-
Special reserve	12,967	-	118,810	-
Unappropriated retained earnings (accumulated deficits)	(1,777,225)	-	1,144,928	1
Total retained earnings	(1,297,842)	-	1,615,661	1
Other equity	1,196,233	-	58,223	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	56,553,772	21	57,081,572	27
TOTAL	\$ 268,876,505	100	\$ 214,914,221	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
REVENUE (Notes 4, 26 and 32)	\$ 146,372,401	100	\$ 150,264,792	100
COSTS (Notes 4, 11, 26 and 32)	<u>135,008,166</u>	<u>92</u>	<u>137,614,956</u>	<u>92</u>
GROSS PROFIT	11,364,235	8	12,649,836	8
OPERATING EXPENSES (Notes 4, 26 and 32)	<u>11,284,000</u>	<u>8</u>	<u>10,802,269</u>	<u>7</u>
OPERATING PROFIT	<u>80,235</u>	<u>-</u>	<u>1,847,567</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	524,233	-	420,416	-
Other gains and losses (Notes 12, 13, 14 and 26)	(569,582)	-	(559,230)	-
Finance costs (Notes 26 and 32)	(3,034,172)	(2)	(1,312,044)	(1)
Share of the profit of associates and joint ventures (Note 13)	<u>1,811,960</u>	<u>1</u>	<u>1,918,922</u>	<u>1</u>
Total non-operating income and expenses	<u>(1,267,561)</u>	<u>(1)</u>	<u>468,064</u>	<u>-</u>
PROFIT (LOSS) BEFORE INCOME TAX	(1,187,326)	(1)	2,315,631	1
INCOME TAX EXPENSE (Notes 4 and 27)	<u>12,472</u>	<u>-</u>	<u>525,270</u>	<u>-</u>
NET INCOME (LOSS)	<u>(1,199,798)</u>	<u>(1)</u>	<u>1,790,361</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Loss on hedging instruments subject to basis adjustments (Notes 4, 25 and 31)	(17,705)	-	23,884	-
Unrealized (loss) gain on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 25)	24,490	-	(23,830)	-
Remeasurement of defined benefit plans (Notes 4 and 24)	(562,259)	-	(674,905)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 24)	(72,718)	-	(105,569)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	101,259	-	127,120	-

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CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	\$ (59,174)	-	\$ 34,140	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(13,259)	-	29,573	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 25 and 31)	1,425,306	1	75,454	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 27)	<u>(273,227)</u>	<u>-</u>	<u>(18,193)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>552,713</u>	<u>1</u>	<u>(532,326)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ (647,085)</u>	<u>-</u>	<u>\$ 1,258,035</u>	<u>1</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 27)				
Basic	<u>\$ (0.22)</u>		<u>\$ 0.33</u>	
Diluted	<u>\$ (0.22)</u>		<u>\$ 0.32</u>	

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

(Concluded)

CHINA AIRLINES, LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Retained Earnings					Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Other Equity			Total Equity	
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)			Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments		Treasury Shares Held by Subsidiaries
BALANCE AT JANUARY 1, 2018	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ 1,458,313	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (43,372)	\$ 57,023,237
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	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
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118
Appropriation of 2017 earnings	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	(145,831)	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-
Cash dividends - \$0.2181820086 per share	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)
Changes in capital surplus from dividends distributed to subsidiaries	-	630	-	-	-	-	-	-	-	-	-	630
Net income for the year ended December 31, 2018	-	-	-	-	1,790,361	-	-	-	-	-	-	1,790,361
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(645,495)	25,322	-	268	-	87,579	-	(532,326)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	1,144,866	25,322	-	268	-	87,579	-	1,258,035
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-	(469,393)	(469,393)
Treasury shares retired	(500,000)	30,607	-	-	-	-	-	-	-	-	469,393	-
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
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	(603)	-	(603)
Appropriation of 2018 earnings	-	-	114,493	-	(114,493)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	(114,493)	-	-	-	-	-	-	-
Special reserve	-	-	-	(105,843)	105,843	-	-	-	-	-	-	-
Cash dividends - \$0.20960737 per share	-	-	-	-	(1,136,278)	-	-	-	-	-	-	(1,136,278)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	606	-	-	-	-	-	-	-	-	-	606
Actual disposal or acquisition of interests in subsidiaries	-	1,247,087	-	-	-	-	-	-	-	-	-	1,247,087
Net loss for the year ended December 31, 2019	-	-	-	-	(1,199,798)	-	-	-	-	-	-	(1,199,798)
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	(577,427)	(53,411)	-	64,538	-	1,119,013	-	552,713
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	(1,777,225)	(53,411)	-	64,538	-	1,119,013	-	(647,085)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	-	-	-	8,368	-	105	-	-	-	8,473
BALANCE AT DECEMBER 31, 2019	\$ 54,209,846	\$ 2,488,907	\$ 466,416	\$ 12,967	\$ (1,777,225)	\$ (54,707)	\$ -	\$ 107,262	\$ -	\$ 1,143,678	\$ (43,372)	\$ 56,553,772

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ (1,187,326)	\$ 2,315,631
Adjustments for:		
Expected credit loss recognized on trade receivables	24,000	50,000
Depreciation expenses	29,398,635	18,192,291
Amortization expenses	165,981	165,050
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(25,700)	(11,076)
Interest income	(314,944)	(274,189)
Dividend income	(10,112)	(9,603)
Share of profit of associates and joint ventures	(1,811,960)	(1,918,922)
Loss (gain) on disposal of property, plant and equipment	(26,377)	273,308
Gain on disposal of investments accounted for using the equity method	(7,656)	(450,195)
Loss on disposal of non-current assets held for sale	10,462	368,992
Loss on inventories and property, plant and equipment	571,960	623,012
Impairment loss recognized on property, plant and equipment	-	50,000
Net gain on foreign currency exchange	41,292	288,598
Finance costs	3,034,172	1,312,044
Recognition of provisions	3,616,519	2,566,045
Amortization of unrealized gain on sale-leasebacks	-	(13,888)
Loss on sale-leasebacks	103,775	-
Others	5	-
Impairment loss recognized on non-current assets held for sale	-	75,437
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	25,266	11,076
Financial liabilities mandatorily classified as at fair value through profit or loss	11,528	(9,359)
Notes and accounts receivable	1,507,192	(1,260,344)
Accounts receivable - related parties	65,925	212,277
Other receivables	101,047	(94,232)
Inventories	(128,037)	(225,553)
Other current assets	351,186	62,151
Notes and accounts payable	53,077	878,219
Accounts payable - related parties	(114,250)	89,678
Other payables	(731,599)	513,674
Contract liabilities	1,851,452	3,102,855
Provisions	(1,970,226)	(2,539,210)
Other current liabilities	(120,655)	10,515
Accrued pension liabilities	93,703	99,135
Cash generated from operations	34,578,335	24,453,417
Interest received	307,503	244,604
Dividends received	940,039	624,834
Interest paid	(3,038,729)	(1,242,278)
Income tax paid	(41,260)	(19,085)
Net cash generated from operating activities	<u>32,745,888</u>	<u>24,061,492</u>

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CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	\$ (1,467,317)	\$ (2,310,000)
Disposal of financial assets at amortized cost	2,310,000	-
Acquisition of investments accounted for by the equity method	(35,525)	(243,743)
Payments for property, plant and equipment	(2,397,742)	(2,561,987)
Proceeds from disposal of property, plant and equipment	38,596	330,136
Proceeds from disposal of non-current assets held for sale	35,692	688,427
Proceeds from disposal of investments accounted for using the equity method	1,713,825	-
Increase in refundable deposits	(387,244)	(51,378)
Decrease in refundable deposits	104,825	103,593
Increase in prepayments for equipment	(13,699,043)	(13,798,867)
Increase in computer software costs	<u>(157,571)</u>	<u>(155,431)</u>
Net cash used in investing activities	<u>(13,941,504)</u>	<u>(17,999,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of the principal portion of lease liabilities	(9,666,313)	-
Payments for buy-back of treasury shares	-	(469,393)
Proceeds from issuance of bonds payable	3,500,000	10,512,000
Repayments of bonds payable	(4,445,900)	(2,700,000)
Proceeds from sale-leasebacks	4,905,660	-
Proceeds from long-term borrowings	5,500,000	17,200,000
Repayments of long-term borrowings and capital lease obligations	(15,336,255)	(27,339,868)
Proceeds from guarantee deposits received	167,034	118,367
Refunds of guarantee deposits received	(133,938)	(67,905)
Dividends paid to owners of the Company	<u>(1,136,278)</u>	<u>(1,193,670)</u>
Net cash used in financing activities	<u>(16,645,990)</u>	<u>(3,940,469)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(220,402)</u>	<u>2,690</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,937,992	2,124,463
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>18,688,022</u>	<u>16,563,559</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 20,626,014</u>	<u>\$ 18,688,022</u>

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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, 2019 and 2018, CADF and NDF held 44.03% of the Company’s shares. As of December 31, 2019 and 2018, the Company had 12,175 and 12,498 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 18, 2020.

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

IFRS 16 “Leases”

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

Definition of a lease

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

The Company as lessee

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

Lease liabilities were recognized on January 1, 2019 for leases classified as operating leases under IAS 17. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Company applies IAS 36 to all right-of-use assets.

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

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

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

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 2.47%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	<u>\$ 68,174,292</u>
Undiscounted amount on January 1, 2019	<u>\$ 68,174,292</u>
Discounted amount using the incremental borrowing rate on January 1, 2019	\$ 58,286,964
Add: Finance lease payable on December 31, 2018	596,000
Add: Adjustments as a result of a different treatment of extension and termination options	6,419,285
Add: Other	4,557,770
Less: Derivative financial instruments for hedging	<u>(41,919,508)</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 27,940,511</u>

The Company as lessor

The Company does not make any adjustments to leases in which it is a lessor and accounts for those leases under IFRS 16 starting from January 1, 2019.

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

	Carrying Amount as of December 31, 2019	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid rent	\$ 699,098	\$ (699,098)	\$ -
Refundable deposits	377,577	(215,426)	162,151
Right-of-use assets	-	69,988,735	69,988,735
Other financial assets	<u>-</u>	<u>189,808</u>	<u>189,808</u>
Total effect on assets	<u>\$ 1,076,675</u>	<u>\$ 69,264,019</u>	<u>\$ 70,340,694</u>
Lease liabilities - current	\$ -	\$ 3,394,630	\$ 3,394,630
Lease liabilities - non-current	-	24,545,881	24,545,881
Capital lease obligations	596,000	(596,000)	-
Financial liabilities for hedging - current	-	5,947,449	5,947,449
Financial liabilities for hedging - non-current	<u>-</u>	<u>35,972,059</u>	<u>35,972,059</u>
Total effect on liabilities	<u>\$ 596,000</u>	<u>\$ 69,264,019</u>	<u>\$ 69,860,019</u>

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

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
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.

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS1 “clarify the classification of liabilities as current or non-current”	January 1, 2022

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The 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:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for an asset or liability.

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

Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. 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:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

Foreign Currencies

In preparing the financial statements of the Company, 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 purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (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.

Inventories

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

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 Accounted for by the Equity Method

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

- a. Investment in subsidiaries

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

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

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

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

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

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

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

b. Investments in associates and joint ventures

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

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

Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and jointly ventures. The Company also recognizes the changes in the Company's share of equity of associates and jointly ventures attributable to the Company.

When the Company subscribes for additional new shares of an associate and joint ventures at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint ventures. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the subscription of additional new shares of the associate and jointly controlled entity, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint ventures is reclassified to profit or loss on the same basis as would be required 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 Company's share of losses of an associate and joint ventures equals or exceeds its interest in that associate and joint ventures which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint ventures entity, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint ventures.

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

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence and joint control. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the jointly controlled entity. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used 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.

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 to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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 Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or 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

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 31.

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 Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation 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 Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of an investment.

2) Impairment of financial assets

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

The Company always recognizes lifetime expected credit losses (ECLs) for trade receivables and other receivables. For all other financial instruments, the Company 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 Company 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 impairment loss of all financial assets is recognized in profit or loss by a reduction in 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 the carrying amounts of such financial assets are not reduced.

3) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Company 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 Company 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

Except for financial liabilities at FVTPL, 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 issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

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

Starting from 2018, the Company 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 Company recognizes provisions when the Company has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When the aircraft lease contracts expire and will be returned to lessor, the Company will assess if there are existing obligations and if a provision is required when signing the lease contract.

Revenue Recognition

When applying IFRS 15 during 2018, the Company 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 Company 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

2019

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

The Company as lessee

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

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

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Company by the end of the lease terms or if the costs of right-of-use assets reflect that the Company will exercise a purchase option, the Company depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives payable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

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

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

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

2018

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

The Company 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.

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.

Operating lease payments are recognized as expenses on a straight-line basis over the lease term

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 rereasurement) 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. Rereasurement, 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. Rereasurement 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 Company'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.

A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company 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 Company’s estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the 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 statements of comprehensive income.

The Company’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 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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred 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 JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company'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 of 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 Company 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

	<u>December 31</u>	
	2019	2018
Cash on hand and revolving funds	\$ 58,661	\$ 51,264
Checking accounts and demand deposits	4,867,015	6,367,527
Cash equivalents		
Time deposits with original maturities of less than three months	12,662,162	12,269,231
Repurchase agreements collateralized by bonds	<u>3,038,176</u>	<u>-</u>
	<u>\$ 20,626,014</u>	<u>\$ 18,688,022</u>

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

	<u>December 31</u>	
	2019	2018
Bank balance	0.01%-1.90%	0%-1.90%
Time deposits with original maturities of less than three months	0.60%-2.55%	0.60%-3.55%
Repurchase agreements collateralized by bonds	0.55%-0.70%	-

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

	<u>December 31</u>	
	2019	2018
<u>Financial assets - current</u>		
Financial assets mandatorily classified at FVTPL		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	<u>\$ 434</u>	<u>\$ -</u>
<u>Financial liabilities held for trading</u>		
Derivative financial instruments (not under hedge accounting)		
foreign exchange forward contracts	<u>\$ 11,749</u>	<u>\$ 221</u>

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2019</u>			
Buy forward contracts	NTD/USD	2020.01.15-2020.07.31	NTD570,571/USD19,000
<u>December 31, 2018</u>			
Buy forward contracts	NTD/USD	2019.01.02-2019.01.31	NTD30,923/USD1,000

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments

	<u>December 31</u>	
	2019	2018
<u>Non-current</u>		
Foreign investments		
Unlisted shares	\$ 80,991	\$ 61,620
Domestic investments		
Unlisted shares	<u>26,865</u>	<u>21,746</u>
	<u>\$ 107,856</u>	<u>\$ 83,366</u>

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 Company's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Time deposits with original maturities of more than 3 months (e)	<u>\$ 1,460,450</u>	<u>\$ 2,310,000</u>

The range of interest rates for time deposits with original maturities of more than 3 months were approximately 0.60%-2.44% and 0.40%-0.68% per annum as of December 31, 2019 and 2018, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Notes receivable</u>	\$ 297,075	\$ 596,739
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	7,577,460	8,875,002
Less: Allowance for impairment loss	<u>(180,104)</u>	<u>(191,079)</u>
	<u>7,397,356</u>	<u>8,683,923</u>
	<u>\$ 7,694,431</u>	<u>\$ 9,280,662</u>

The average credit period was 7 to 55 days. In determining the recoverability of a trade receivable, the Company 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 Company's past default experience with the counterparty and an analysis of the counterparty's current financial position. The Company 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 Company uses other publicly available financial information or its own trading records to rate its major customers. The Company'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 Company 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 Company'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 Company's customer base.

The Company 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 Company 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 Company's provision matrix.

December 31, 2019

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.03%	0.15%	15.89%	22.14%	100%	-
Gross carrying amount	\$ 6,070,753	\$ 1,241,766	\$ 37,891	\$ 73,058	\$ 153,992	\$ 7,577,460
Loss allowance (lifetime ECLs)	<u>(2,052)</u>	<u>(1,862)</u>	<u>(6,020)</u>	<u>(16,178)</u>	<u>(153,992)</u>	<u>(180,104)</u>
Amortized cost	<u>\$ 6,068,701</u>	<u>\$ 1,239,904</u>	<u>\$ 31,871</u>	<u>\$ 56,880</u>	<u>\$ -</u>	<u>\$ 7,397,356</u>

December 31, 2018

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.06%	0.06%	3.67%	21.78%	97.5%	
Gross carrying amount	\$ 7,291,910	\$ 1,331,529	\$ 36,819	\$ 41,920	\$ 172,824	\$ 8,875,002
Loss allowance (lifetime ECLs)	<u>(1,149)</u>	<u>(699)</u>	<u>(3,796)</u>	<u>(12,611)</u>	<u>(172,824)</u>	<u>(191,079)</u>
Amortized cost	<u>\$ 7,290,761</u>	<u>\$ 1,330,830</u>	<u>\$ 33,023</u>	<u>\$ 29,309</u>	<u>\$ -</u>	<u>\$ 8,683,923</u>

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Balance at January 1	\$ 191,079	\$ 142,637
Add: Net remeasurement of loss allowance	24,000	50,000
Less: Amounts written off	(34,975)	(2,555)
Foreign exchange gains and losses	<u>-</u>	<u>997</u>
Balance at December 31	<u>\$ 180,104</u>	<u>\$ 191,079</u>

11. INVENTORIES

	<u>December 31</u>	
	2019	2018
Aircraft spare parts	\$ 7,390,981	\$ 7,669,834
Items for in-flight sale	571,601	554,084
Work in process - maintenance services	<u>283,933</u>	<u>227,974</u>
	<u>\$ 8,246,515</u>	<u>\$ 8,451,892</u>

The operating costs for the years ended December 31, 2019 and 2018 included losses from inventory write-downs of \$317,629 thousand and \$371,275 thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

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

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as 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 2019 and 2018, the Company recognized impairment losses of \$0 thousand and \$75,437 thousand, respectively. In 2019 and 2018, the Company recognized disposal losses of \$10,462 thousand and \$368,992 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.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Investments in subsidiaries	\$ 12,004,180	\$ 11,686,577
Investments in associates	471,267	497,362
Investments in jointly controlled entities	<u>1,007,430</u>	<u>974,416</u>
	<u>\$ 13,482,877</u>	<u>\$ 13,158,355</u>

a. Investment in subsidiaries

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Unlisted companies</u>		
Tigerair Taiwan Co., Ltd.	\$ 1,946,328	\$ 1,805,921
CAL Park	1,552,310	1,507,445
Mandarin Airlines	1,494,603	1,201,109
CAL-Dynasty International	1,276,546	1,266,921
Taiwan Air Cargo Terminal	1,517,946	1,533,244
Taoyuan International Airport Services	737,245	755,619
CAL-Asia Investment	559,562	494,098
Sabre Travel Network (Taiwan)	460,213	454,149
CAL Hotel	479,259	461,239
Taiwan Airport Services	276,134	266,775
Hwa Hsia	88,313	89,101
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	921,989	1,128,138
Yestrip	25,268	26,946
Dynasty Holidays	-	26,059
Global Sky Express	7,294	6,996
Kaohsiung Catering Services	<u>661,170</u>	<u>662,817</u>
	<u>\$ 12,004,180</u>	<u>\$ 11,686,577</u>

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

	December 31	
	2019	2018
Tigerair Taiwan Co., Ltd.	69%	90%
Taiwan Air Cargo Terminal	54%	54%
CAL Park	100%	100%
Mandarin Airlines	94%	94%
CAL-Dynasty International	100%	100%
Taoyuan International Airport Services	49%	49%
CAL-Asia Investment	100%	100%
Sabre Travel Network (Taiwan)	94%	94%
Taiwan Airport Services	47%	47%
CAL Hotel	100%	100%
Hwa Hsia	100%	100%
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	100%	100%
Dynasty Holidays	20%	51%
Yestrip	100%	100%
Global Sky Express	25%	25%
Kaohsiung Catering Services	54%	54%

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

The board of directors of the Company decided to sell part of the equity of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. on January 21, 2019, and completed the transaction on January 31, 2019. After the sale of the equity, the Company's holding of the issued share capital decreased from 51% to 20%. Dynasty Holidays was classified as an associate since the Group lost control of the subsidiary. For the information about the disposal of the Dynasty Holidays, please refer to Note 31.

In order to prepare the listing of Tigerair Taiwan Co., Ltd. and comply with the rules relating to the examination for public listing, the release of the shares of Tigerair Taiwan Co., Ltd. held by the Company was resolved in the shareholders' meeting of the Company on June 25, 2019. The shares shall be subscribed by all shareholders of the Company on the basis of the percentage of shareholdings. For the subscribed shares that the original shareholders waived or for the undersubscribed portion, the chairman was authorized to contact specific persons to subscribe. The subscription price was set at \$41 per share. In October and December 2019, the stock price was fully paid and the shares were completely delivered and transferred. The proceeds from disposal were \$1,679,789 thousand, and the related gain on disposal was \$1,129,080 thousand and recognized in the capital surplus account.

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

	2019	2018
The share of profit or loss	\$ 1,529,721	\$ 1,628,453

b. Investments in associates

	December 31	
	2019	2018
<u>Unlisted companies</u>		
China Aircraft Services	\$ 461,263	\$ 497,362
Dynasty Holidays	<u>10,004</u>	<u>-</u>
	<u>\$ 471,267</u>	<u>\$ 497,362</u>

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

	December 31	
	2019	2018
China Aircraft Services	20%	20%
Dynasty Holidays (Note)	20%	51%

Note: Dynasty Holidays was list as a associate on January 31, 2019.

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

	2019	2018
China Aircraft Services	\$ 10,365	\$ 6,402
Dynasty Holidays	<u>15</u>	<u>-</u>
	<u>\$ 10,380</u>	<u>\$ 6,402</u>

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2019	2018
China Pacific Catering Services	\$ 801,070	\$ 805,157
China Pacific Laundry Services	168,547	166,901
NORDAM Asia	<u>37,813</u>	<u>2,358</u>
	<u>\$ 1,007,430</u>	<u>\$ 974,416</u>

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

	December 31	
	2019	2018
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia	49%	49%

The Company signed a joint venture agreement with the Taikoo Company 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 Company does not have control.

To enhance the Company's maintenance capabilities, the Company established a joint venture with the US NORDAM Aerospace Group in December 2017, planning 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, while their company operation was not impact. NORDAM Asia suspended its operation from October 5, 2018 to October 4, 2019 and resumed business on October 4, 2019. The company increased capital of \$35,525 thousand to NORDAM Asia on November 2019.

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

	December 31	
	2019	2018
China Pacific Catering Services	\$ 256,899	\$ 267,413
China Pacific Laundry Services	15,030	16,695
NORDAM Asia	<u>(70)</u>	<u>(41)</u>
	<u>\$ 271,859</u>	<u>\$ 284,067</u>

The Company's shares of other comprehensive income of subsidiaries, associates and jointly controlled entities were losses of \$(85,977) thousand and \$(75,996) thousand in 2019 and 2018, 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, 2019 and 2018 were all independently audited, except of China Aircraft Services. 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 the notes to financial statements.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2018	\$ 193,013	\$ 7,304,328	\$ 261,114,631	\$ 25,594,436	\$ 6,163,436	\$ 300,369,844
Additions	-	41,016	2,308,683	-	212,288	2,561,987
Disposals	-	(10,349)	(20,305,928)	(1,811,222)	(108,752)	(22,236,251)
Reclassification	-	542	12,462,241	1,428,463	73,574	13,964,820
Balance at December 31, 2018	<u>\$ 193,013</u>	<u>\$ 7,335,537</u>	<u>\$ 255,579,627</u>	<u>\$ 25,211,677</u>	<u>\$ 6,340,546</u>	<u>\$ 294,660,400</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2018	\$ -	\$ (3,717,055)	\$ (135,671,634)	\$ (13,613,023)	\$ (5,102,584)	\$ (158,104,296)
Depreciation expense	-	(172,873)	(15,732,018)	(1,993,631)	(293,769)	(18,192,291)
Disposals	-	9,326	19,813,183	1,532,046	89,841	21,444,396
Impairment losses	-	-	(50,000)	-	-	(50,000)
Reclassification	-	-	9,283,041	-	(12,196)	9,270,845
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ (3,880,602)</u>	<u>\$ (122,357,428)</u>	<u>\$ (14,074,608)</u>	<u>\$ (5,318,708)</u>	<u>\$ (145,631,346)</u>
Carrying amounts at December 31, 2018	<u>\$ 193,013</u>	<u>\$ 3,454,935</u>	<u>\$ 133,222,199</u>	<u>\$ 11,137,069</u>	<u>\$ 1,021,838</u>	<u>\$ 149,029,054</u>
<u>Cost</u>						
Balance at January 1, 2019	\$ 193,013	\$ 7,335,537	\$ 255,579,627	\$ 25,211,677	\$ 6,340,546	\$ 294,660,400
Additions	-	37,725	2,211,321	-	148,696	2,397,742
Disposals	-	(162)	(20,698,042)	(79,866)	(85,852)	(20,863,922)
Reclassification	-	10,658	29,815,008	(25,131,811)	106,257	4,800,112
Balance at December 31, 2019	<u>\$ 193,013</u>	<u>\$ 7,383,758</u>	<u>\$ 266,907,914</u>	<u>\$ -</u>	<u>\$ 6,509,647</u>	<u>\$ 280,994,332</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2019	\$ -	\$ (3,880,602)	\$ (122,357,428)	\$ (14,074,608)	\$ (5,318,708)	\$ (145,631,346)
Depreciation expense	-	(175,943)	(18,186,434)	(741,780)	(284,537)	(19,388,694)
Disposals	-	162	14,899,562	79,866	76,586	15,056,176
Reclassification	-	-	(14,692,000)	14,736,522	(45,104)	(582)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ (4,056,383)</u>	<u>\$ (140,336,300)</u>	<u>\$ -</u>	<u>\$ (5,571,763)</u>	<u>\$ (149,964,446)</u>
Carrying amounts at December 31, 2019	<u>\$ 193,013</u>	<u>\$ 3,327,375</u>	<u>\$ 126,571,614</u>	<u>\$ -</u>	<u>\$ 937,884</u>	<u>\$ 131,029,886</u>

Reclassification is mainly from prepaid equipment.

The above items of 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
Flight equipment and equipment under finance leases	
Airframes	18-25 years
Aircraft cabins	10-20 years
Engines	12-20 years
Heavy maintenance on aircraft	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	8-12 years
Repairable spare parts	3-15 years
Leased aircraft improvements	5-12 years

Regarding changes in fleet composition, current and forecasted market values, and other technical factors, the Company recognized impairment losses on a part of aircraft equipment of \$50,000 thousand in 2018.

Refer to Note 32 for the carrying amounts of aircraft equipment and right-of-use assets pledged by the Company.

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

15. INVESTMENT PROPERTIES

	December 31	
	2019	2018
Carrying amount		
Investment properties	<u>\$ 2,047,448</u>	<u>\$ 2,047,448</u>

The investment properties (land) held Company, located in Nankan, were leased to others.

The fair value of the investment properties held by the Company were both \$2,473,771 thousand as of December 31, 2019 and 2018. 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 Company's investment properties were held under freehold interest.

16. OTHER INTANGIBLE ASSETS

	Computer Software Costs	Accumulated Amortization	Net Value
Balance at January 1, 2018	\$ 1,905,354	\$ (916,027)	\$ 989,327
Additions	155,431	-	155,431
Amortization expense	<u>-</u>	<u>(165,050)</u>	<u>(165,050)</u>
Balance at December 31, 2018	<u>\$ 2,060,785</u>	<u>\$ (1,081,077)</u>	<u>\$ 979,708</u>
Balance at January 1, 2019	\$ 2,060,785	\$ (1,081,077)	\$ 979,708
Additions	157,571	-	157,571
Amortization expense	<u>-</u>	<u>(165,981)</u>	<u>(165,981)</u>
Balance at December 31, 2019	<u>\$ 2,218,356</u>	<u>\$ (1,247,058)</u>	<u>\$ 971,298</u>

The above items of other intangible assets are amortized on a straight-line basis over 2-10 years.

17. OTHER ASSETS

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Temporary payments	\$ 94,682	\$ 290,662
Prepayments	1,551,113	2,549,376
Others	<u>460,404</u>	<u>317,826</u>
	<u>\$ 2,106,199</u>	<u>\$ 3,157,864</u>
<u>Non-current</u>		
Prepayments for aircraft	\$ 8,322,518	\$ 223,745
Prepayments - long-term	2,264,220	1,501,429
Refundable deposits	621,715	377,577
Other financial assets	<u>19,103</u>	<u>19,334</u>
	<u>\$ 11,227,556</u>	<u>\$ 2,122,085</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A321neo and B777F aircraft. For details on the A321neo and B777F aircraft purchase contracts, refer to Note 33.

18. BORROWINGS

Long-term Borrowings

	December 31	
	2019	2018
Unsecured bank loans	\$ 650,000	\$ 7,749,000
Secured bank loans	30,435,870	34,171,875
Commercial paper		
Proceeds from issue	31,300,000	30,300,000
Less: Unamortized discount	<u>59,382</u>	<u>58,132</u>
	62,326,488	72,162,743
Less: Current portion	<u>13,708,320</u>	<u>15,335,005</u>
	<u>\$ 48,618,168</u>	<u>\$ 56,827,738</u>
Interest rates	1.08%-1.46%	0.92%-1.46%

For information on secured bank loans which were secured by flight equipment, refer to Note 32.

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

	December 31	
	2019	2018
Periods	2008/2/26- 2030/4/25	2007/5/24- 2030/4/25

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until August 2024, were used by the Company to guarantee commercial paper which it issued. The commercial paper was issued at discount rates of 1.1300%-1.1680% in 2019 and 1.0693%-1.2960% in 2018.

19. BONDS PAYABLE

	December 31	
	2019	2018
Unsecured corporate bonds first-time issued in 2013	\$ 2,750,000	\$ 5,500,000
Unsecured corporate bonds first-time issued in 2016	5,000,000	5,000,000
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	4,500,000
Unsecured corporate bonds first-time issued in 2019	3,500,000	-
Convertible bonds - fifth-time issue	-	1,695,900
Convertible bonds - sixth-time issue	<u>5,752,625</u>	<u>5,673,710</u>
	32,352,625	33,219,610
Less: Current portion and put option of convertible bonds	<u>10,000,000</u>	<u>4,445,900</u>
	<u>\$ 22,352,625</u>	<u>\$ 28,773,710</u>

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
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
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
Seven-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 private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually	2019.06.21-2024.06.21	Principal repayable in June of 2023 and 2024; indicator rate; payable annually	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually	2019.06.21-2026.06.21	Principal repayable in June of 2025 and 2026; indicator rate; payable annually	1.32

(Continued)

Category	Period	Conditions	Rate (%)
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 January 2018; 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 Company's 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	<u>(518,621)</u>
Liability component at the date of issuance	<u>\$ 5,481,379</u>

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

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

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

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

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

20. LEASE AGREEMENTS

Year 2019

- a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Land	\$ 3,442,366
Buildings	6,950,330
Flight equipment	<u>53,870,134</u>
	<u>\$ 64,262,830</u>

	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 5,043,409</u>
Depreciation for right-of-use assets	
Land	\$ 171,147
Buildings	767,939
Flight equipment	<u>9,070,855</u>
	<u>\$ 10,009,941</u>
 b. Lease liabilities - 2019	
	December 31, 2019
Carrying amounts	
Current	<u>\$ 695,215</u>
Non-current	<u>\$ 10,909,262</u>
 Range of discount rate for lease liabilities (include US lease hedging instruments):	
	December 31, 2019
Land	1.09%-1.65%
Buildings	0%-3.56%
Flight equipment	2.49%-3.16%
 c. Financial liabilities under hedge accounting	

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

	Maturity Date	Subject	Carrying Value
December 31, 2019	2021.4.15-2028.5.15	Financial liabilities for hedging - current	\$ 8,577,482
		Financial liabilities for hedging - non-current	42,420,205

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the year ended December 31, 2019	\$ 1,457,058	\$ (24,029)

d. Material leasing activities and terms

As lessee, China Airlines leased ten 777-300ER planes, fifteen A330-300 planes and fifteen 737-800 planes for operation, lease period are 8 to 12 years from February 2006 to May 2028. The rental pricing method is partly a fixed amount of funds, and some of them are floating rents, floating rents are according to benchmark ratio, the rent is revised every half year. When the lease expires, the lease agreements have no purchase rights.

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

	December 31, 2019
Refundable deposits	\$ 463,115
Credit guarantees	1,406,702

e. Lease agreement

The Company signed a rental contract for six A321neo with Air Lease Corporation on September 2019, which is expected to be introduced between 2021 and 2022.

The Company signed a rental letter of intent for eight A321neo with CALC Lease Corporation on May 2019, which is expected to be introduced in 2022.

f. Sale-and-leaseback

In order to revitalize assets and strengthen the financial structure, the Company sold five of its own A330-300 aircraft to Altavair L.P. in September 2019 by sale-and-leaseback for \$4,905,660 thousand. The lease term was 5 to 6 years and a loss of \$103,775 thousand was incurred. The lease agreement had no terms for lease renewal or offtake rights. The annual lease payments for each aircraft are US\$5,389 thousand to US\$5,437 thousand.

As lessee, the Company leased office buildings and equipment from CAL Park. Lease period is 2 years, and the fixed payment (tax included) is \$20,238 thousand per month.

g. Other lease information

The Company uses operating lease agreement for investment properties, refer to Note 15.

	For the Year Ended December 31, 2019
Short-term and low price lease payment	<u>\$ 18,144</u>
Total of lease cash outflow	<u>\$ (11,583,349)</u>

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

2018

a. Sale-and-leaseback finance leases

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

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

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

For the operating lease arrangements, please refer to the financial statements for the year ended December 31, 2018.

As of December 31, 2018, the refundable deposits paid by the Company under operating lease contracts were \$215,425 thousand. Some of the guarantees were secured by credit guarantees, and outstanding credit guarantees as of December 31, 2018 were \$1,437,707 thousand.

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

	December 31, 2018
Up to 1 year	\$ 9,943,373
Over 1 year to 5 years	38,789,047
Over 5 years	<u>19,441,872</u>
	<u>\$ 68,174,292</u>

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

	For the Year Ended December 31, 2018
Minimum lease payments	<u>\$ 10,024,963</u>

21. OTHER PAYABLES

	December 31	
	2019	2018
Fuel costs	\$ 3,419,803	\$ 3,571,314
Ground service expenses	1,178,184	1,089,125
Repair expenses	1,136,588	960,138
Interest expenses	214,089	260,179
Short-term employee benefits	1,577,322	2,053,442
Terminal surcharges	914,428	914,171
Commission expenses	509,520	484,341
Others	<u>1,942,269</u>	<u>2,406,591</u>
	<u>\$ 10,892,203</u>	<u>\$ 11,739,301</u>

22. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31	
	2019	2018
	Contract Liabilities	Contract Liabilities
Frequent flyer programs	\$ 2,884,122	\$ 2,489,950
Advance ticket sales	<u>17,936,476</u>	<u>16,479,196</u>
	<u>\$ 20,820,598</u>	<u>\$ 18,969,146</u>
Current	\$ 18,584,287	\$ 17,065,481
Non-current	<u>2,236,311</u>	<u>1,903,665</u>
	<u>\$ 20,820,598</u>	<u>\$ 18,969,146</u>

23. PROVISIONS

	December 31	
	2019	2018
Operating leases - aircraft	<u>\$ 9,431,736</u>	<u>\$ 7,999,015</u>
Current	\$ -	\$ 268,901
Non-current	<u>9,431,736</u>	<u>7,730,114</u>
	<u>\$ 9,431,736</u>	<u>\$ 7,999,015</u>

The Company rented flight equipment under operating lease agreements. Under the contracts (some of the leased flight equipment's lease payments are calculated monthly), when the lease expires 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 cycle and the number of engine revolutions. The Company had existing obligations to recognize provisions when signing a lease or during the lease term.

	Aircraft Lease Contract
Balance at January 1, 2018	\$ 7,758,651
Additional provisions recognized	2,566,045
Usage	(2,539,210)
Effect of exchange rate changes	<u>213,529</u>
Balance at December 31, 2018	<u>\$ 7,999,015</u>
Balance at January 1, 2019	\$ 7,999,015
Additional provisions recognized	3,616,519
Usage	(1,970,226)
Effect of exchange rate changes	<u>(213,572)</u>
Balance at December 31, 2019	<u>\$ 9,431,736</u>

24. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

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

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 13,932,511	\$ 13,117,255
Fair value of plan assets	<u>(6,343,766)</u>	<u>(6,184,472)</u>
Net defined benefit liabilities	<u>\$ 7,588,745</u>	<u>\$ 6,932,783</u>

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, 2018	<u>\$ 11,956,223</u>	<u>\$ (5,797,479)</u>	<u>\$ 6,158,744</u>
Service cost			
Current service cost	1,263,193	-	1,263,193
Net interest expense (income)	<u>116,231</u>	<u>(56,995)</u>	<u>59,236</u>
Recognized in profit or loss	<u>1,379,424</u>	<u>(56,995)</u>	<u>1,322,429</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(168,987)	(168,987)
Actuarial loss - changes in financial assumptions	283,774	-	283,774
Actuarial loss - experience adjustments	<u>560,118</u>	<u>-</u>	<u>560,118</u>
Recognized in other comprehensive income	<u>843,892</u>	<u>(168,987)</u>	<u>674,905</u>
Contributions from the employer	-	(1,058,494)	(1,058,494)
Benefits paid	(897,483)	897,483	-
Payment to employees direct from the employer	(174,390)	-	(174,390)
Effect of exchange rate changes	<u>9,589</u>	<u>-</u>	<u>9,589</u>
Balance at December 31, 2018	<u>13,117,255</u>	<u>(6,184,472)</u>	<u>6,932,783</u>
Service cost			
Current service cost	1,187,281	-	1,187,281
Net interest expense (income)	<u>118,517</u>	<u>(56,049)</u>	<u>62,468</u>
Recognized in profit or loss	<u>1,305,798</u>	<u>(56,049)</u>	<u>1,249,749</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(219,345)	(219,345)
Actuarial loss - changes in financial assumptions	290,044	-	290,044
Actuarial loss - experience adjustments	<u>491,560</u>	<u>-</u>	<u>491,560</u>
Recognized in other comprehensive income	<u>781,604</u>	<u>(219,345)</u>	<u>562,259</u>
Contributions from the employer	-	(1,038,624)	(1,038,624)
Benefits paid	(1,154,724)	1,154,724	-
Payment to employees direct from the employer	(117,492)	-	(117,492)
Effect of exchange rate changes	<u>70</u>	<u>-</u>	<u>70</u>
Balance at December 31, 2019	<u>\$ 13,932,511</u>	<u>\$ (6,343,766)</u>	<u>\$ 7,588,745</u>

Through the defined benefit plans under the Labor Standards Law, the Company 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. Based on relevant regulations, the return generated by plan assets should not be below the interest rate for a two-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. Thus, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligations.

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	
	2019	2018
Discount rate	0.71%	0.93%
Expected rate of salary increase	1.00%	1.00%

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	
	2019	2018
Discount rate		
0.5% increase	<u>\$ (613,408)</u>	<u>\$ (576,271)</u>
0.5% decrease	<u>\$ 653,413</u>	<u>\$ 626,381</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 626,743</u>	<u>\$ 601,326</u>
0.5% decrease	<u>\$ (600,073)</u>	<u>\$ (563,743)</u>

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	
	2019	2018
The expected contributions to the plan for the next year	<u>\$ 736,056</u>	<u>\$ 722,820</u>
The average duration of the defined benefit obligation	9.6 years	9.8 years

25. EQUITY

a. Share capital

Ordinary shares

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

b. Capital surplus

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Income of convertible bonds in excess of par value and conversion premium	\$ 315,114	\$ 315,114
Dividends distributed to subsidiaries	3,909	3,303
Retirement of treasury shares	33,513	33,513
Difference in sale price of share of subsidiaries and book value	1,129,080	-
Expired employee share options	11,747	11,747
Long-term investments	118,962	955
Bonds payable equity component	409,978	409,978
Others	<u>466,604</u>	<u>466,604</u>
	<u>\$ 2,488,907</u>	<u>\$ 1,241,214</u>

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

The capital surplus from long-term investments, employee shares options expired, dividends distributed to subsidiaries and retirement of treasury shares may not be used for any purpose, except for offsetting a deficit. As for capital surplus from conversion of 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.

The Company shall set aside profits as a legal reserve until the legal reserve amounts to the authorized capital. The legal reserve could be used for making good the deficit of the Company. 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 profit surplus shall be approved in the annual shareholders' meeting held in the following year and shall be accounted for in that year.

1) Appropriation of earnings and dividends per share in 2017

The appropriation of earnings for 2017 was resolved in the shareholders' meeting on June 27, 2018. The appropriations and dividends per share were as follows:

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

2) Appropriation of earnings in 2018

The appropriation of earnings for 2018 was resolved in the shareholders' meeting on June 25, 2019. The 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 reversed special reserve of \$105,843 thousand.

3) Offsetting of deficits in 2019

On March 18, 2020, the board proposed to offset the accumulated deficit in 2019. The deficit included a net loss of \$1,199,798 thousand, negative adjustment of other retained earnings of \$577,427 thousand, the remaining amount of accumulated deficit was \$1,777,225 thousand.

The offsetting of deficits for 2019 is subject to the resolution of the shareholders in the shareholders' meeting to be held on June 23, 2020.

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, 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	34,140	-	-	-	-	34,140
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	84,984	84,984
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 14,354	\$ 14,354
Unrealized gain on financial assets at FVTOCI	-	-	(23,830)	-	-	(23,830)
Share of profit or associates accounted for using equity method	(3,188)	-	24,760	-	8,001	29,573
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	(6,828)	-	547	-	(22,290)	(28,571)
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

(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, 2019	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	(59,174)	-	-	-	-	(59,174)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	1,398,296	1,398,296
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	9,305	9,305
Unrealized gain on financial assets at FVTOCI	-	-	24,490	-	-	24,490
Share of profit or associates accounted for using equity method	(6,072)	-	54,902	-	(7,187)	41,643
Effects of income tax	<u>11,835</u>	<u>-</u>	<u>(14,854)</u>	<u>-</u>	<u>(281,401)</u>	<u>(284,420)</u>
Other comprehensive income (loss) recognized in the period	<u>(53,411)</u>	<u>-</u>	<u>64,538</u>	<u>-</u>	<u>1,119,013</u>	<u>1,130,140</u>
Disposal of subsidiaries	<u>8,368</u>	<u>-</u>	<u>105</u>	<u>-</u>	<u>-</u>	<u>8,473</u>
Transfers of initial carrying amount of hedged items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(603)</u>	<u>(603)</u>
Balance at December 31, 2019	<u>\$ (54,707)</u>	<u>\$ -</u>	<u>\$ 107,262</u>	<u>\$ -</u>	<u>\$ 1,143,678</u>	<u>\$ 1,196,233</u>

(Concluded)

e. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries, as of December 31, 2019 and 2018 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, 2019	-	2,889	2,889
Addition during the year	<u>-</u>	<u>-</u>	<u>-</u>
Number of shares, December 31, 2019	<u>-</u>	<u>2,889</u>	<u>2,889</u>
Number of shares, January 1, 2018	-	2,889	2,889
Addition during the year	50,000	-	50,000
Reduction during the year	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Number of shares, December 31, 2018	<u>-</u>	<u>2,889</u>	<u>2,889</u>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2019</u>			
Mandarin Airlines	2,075	\$ 18,796	\$ 18,796
Hwa Hsia	814	<u>7,376</u>	<u>7,376</u>
		<u>\$ 26,172</u>	<u>\$ 26,172</u>
<u>December 31, 2018</u>			
Mandarin Airlines	2,075	\$ 22,821	\$ 22,821
Hwa Hsia	814	<u>8,956</u>	<u>8,956</u>
		<u>\$ 31,777</u>	<u>\$ 31,777</u>

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.

26. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2019	2018
Passenger	\$ 96,176,865	\$ 94,248,291
Cargo	43,406,487	49,422,018
Others	<u>6,789,049</u>	<u>6,594,483</u>
	<u>\$ 146,372,401</u>	<u>\$ 150,264,792</u>

b. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	\$ 314,944	\$ 274,189
Subsidy income	38,621	11,200
Dividend income	10,112	9,603
Others	<u>160,556</u>	<u>125,424</u>
	<u>\$ 524,233</u>	<u>\$ 420,416</u>

c. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Gain (loss) on disposal property, plant and equipment	\$ 26,377	\$ (273,308)
Loss on Non-current assets held for sale	(10,462)	(368,992)
Net loss on financial assets as held for trading	25,700	11,076
Gain on disposal of investment	7,656	450,195
Gain (loss) on foreign exchange, net	(262,610)	10,812
Loss on sale-and-lease back	(103,775)	-
Impairment loss recognized on Non-current assets held for sale	-	(75,437)
Impairment loss recognized on flight equipment	-	(50,000)
Others	<u>(252,468)</u>	<u>(263,576)</u>
	<u>\$ (569,582)</u>	<u>\$ (559,230)</u>

d. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest expense		
Bonds payable	\$ 431,599	\$ 414,564
Bank loans	703,681	882,190
Interest on obligations under finance leases	-	15,290
Interest on lease liabilities	<u>1,898,892</u>	<u>-</u>
	<u>\$ 3,034,172</u>	<u>\$ 1,312,044</u>

Information about capitalized interest was as follows:

	<u>For the Year Ended December 31</u>	
	2019	2018
Capitalization interest	\$ 36,404	\$ 37,174
Capitalization rate	1.01%-1.28%	1.16%-1.31%
e. Depreciation and amortization expenses		
	<u>For the Year Ended December 31</u>	
	2019	2018
Property, plant and equipment	\$ 19,388,694	\$ 18,192,291
Right of use assets	10,009,941	
Intangible assets	<u>165,981</u>	<u>165,050</u>
	<u>\$ 29,564,616</u>	<u>\$ 18,357,341</u>
An analysis of depreciation by function		
Operating costs	\$ 28,373,597	\$ 17,907,878
Operating expenses	<u>1,025,038</u>	<u>284,413</u>
	<u>\$ 29,398,635</u>	<u>\$ 18,192,291</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 165,981</u>	<u>\$ 165,050</u>
f. Employee benefits expense		
	<u>For the Year Ended December 31</u>	
	2019	2018
Post-employment benefits		
Defined contribution plans	\$ 373,187	\$ 365,707
Defined benefit plans	<u>1,249,749</u>	<u>1,322,429</u>
	<u>\$ 1,622,936</u>	<u>\$ 1,688,136</u>
Other employee benefits		
Salary expenses	\$ 14,475,115	\$ 15,010,513
Labor and health insurance	1,282,461	1,242,585
Personnel service expenses	<u>4,589,299</u>	<u>3,610,480</u>
	<u>\$ 20,346,875</u>	<u>\$ 19,863,578</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 17,862,954	\$ 17,751,051
Operating expenses	<u>4,106,857</u>	<u>3,800,663</u>
	<u>\$ 21,969,811</u>	<u>\$ 21,551,714</u>

According to the Company's articles, the Company accrued employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation, and accrued profit bonus at a certain rate of profit before tax on the basis of the collective agreement signed with the China Airlines Employees Union. The employees' compensation and profit bonus for the year ended December 31, 2018 was \$51,656 thousand and \$594,810 thousand. For the year ended December 31,

2019, the employees' compensation have not estimated since it was loss before income tax.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual financial statements are authorized for issue are adjusted in the year that the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual 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 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
Current year	\$ 8,836	\$ 22,506
Prior year adjustment	(6,658)	4,866
Deferred tax		
Current year	(16,218)	1,366,740
Adjustments to deferred tax attributable to changes in tax rates and laws	26,512	-
Effect of income tax	<u>-</u>	<u>(868,842)</u>
Income tax expense recognized in profit or loss	<u>\$ 12,472</u>	<u>\$ 525,270</u>

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

	For the Year Ended December 31	
	2019	2018
Profit before tax	<u>\$ (1,187,326)</u>	<u>\$ 2,315,631</u>
Income tax expense calculated at the statutory rate	\$ (237,465)	\$ 463,126
Add (deduct) tax effects of:		
Nondeductible expenses in determining taxable income	17,900	20,098
Tax-exempt income	(347,338)	(343,107)
Overseas income tax expense	8,836	22,506
Additional income tax under the Alternative Minimum Tax Act	-	-
Unrecognized loss carryforwards and investment tax credits	550,685	1,227,000
Effect of income tax	-	(868,842)
Adjustments for prior years' tax	(6,658)	4,866
Adjustments to deferred tax attributable to changes in tax rates and laws	26,512	-
Other	<u>-</u>	<u>(377)</u>
Income tax expense recognized in profit or loss	<u>\$ 12,472</u>	<u>\$ 525,270</u>

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

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
Recognized in other comprehensive income		
Translation of foreign operations	\$ 11,835	\$ (6,828)
Fair value revaluation of hedging instruments for cash flow hedges	(281,401)	(22,290)
Actuarial gain or loss on defined benefit plan	112,452	134,979
Fair value changes of financial assets at FVTOCI	(14,854)	547
Effect of income tax	<u>-</u>	<u>2,519</u>
Total income tax recognized in other comprehensive income	<u>\$ (171,968)</u>	<u>\$ 108,927</u>

c. Deferred tax assets and liabilities

For the year ended December 31, 2019

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 1,396,033	\$ 18,726	\$ 112,452	\$ 1,527,211
Frequent flyer programs	510,060	80,634	-	590,694
Maintenance reserve	1,674,973	388,512	-	2,063,485
Allowance for reduction of inventory	333,653	(38,854)	-	294,799
Others	<u>646,627</u>	<u>(377,534)</u>	<u>11,860</u>	<u>280,953</u>
	<u>\$ 4,561,346</u>	<u>\$ 71,484</u>	<u>\$ 124,312</u>	<u>\$ 4,757,142</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange gains	\$ -	\$ 81,778	\$ -	\$ 81,778
Others (Note)	<u>21,195</u>	<u>-</u>	<u>296,280</u>	<u>317,475</u>
	<u>\$ 21,195</u>	<u>\$ 81,778</u>	<u>\$ 296,280</u>	<u>\$ 399,253</u>

For the year ended December 31, 2018

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Ending Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 1,055,972	\$ 205,081	\$ 134,980	\$ 1,396,033
Frequent flyer programs	426,106	83,954	-	510,060
Maintenance reserve	1,395,805	279,168	-	1,674,973
Allowance for reduction of inventory	237,366	96,287	-	333,653
Others	1,079,923	(420,179)	(13,117)	646,627
Loss carryforwards	<u>779,769</u>	<u>(779,769)</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,974,941</u>	<u>\$ (535,458)</u>	<u>\$ 121,863</u>	<u>\$ 4,561,346</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Depreciation difference from fixed assets	\$ 31,010	\$ (31,010)	\$ -	\$ -
Unrealized foreign exchange gains	915	(915)	-	-
Others (Note)	<u>13,894</u>	<u>(5,635)</u>	<u>12,936</u>	<u>21,195</u>
	<u>\$ 45,819</u>	<u>\$ (37,560)</u>	<u>\$ 12,936</u>	<u>\$ 21,195</u>

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

Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets are as follows:

	<u>December 31</u>	
	2019	2018
Loss carryforwards		
2019		\$ 11,790,770
2021	\$ 2,899,496	2,899,496
2022	619,799	619,799
2026	202,699	202,699
2028	1,519,941	1,326,528
2029	<u>760,157</u>	<u>-</u>
	<u>\$ 6,002,092</u>	<u>\$ 16,839,292</u>
Other	<u>\$ 1,097,908</u>	<u>\$ 39,142</u>

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

Expiry Year	Unused Amount
2021	\$ 2,899,496
2022	619,799
2026	202,699
2028	1,519,941
2029	<u>760,157</u>
	<u>\$ 6,002,092</u>

e. Income tax returns

The income tax returns of the Company through 2017 have been examined by the tax authorities.

28. EARNINGS PER SHARE

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	<u>\$ (0.22)</u>	<u>\$ 0.33</u>
Diluted earnings per share	<u>\$ (0.22)</u>	<u>\$ 0.32</u>
	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	\$ (1,199,798)	\$ 1,790,361
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	<u>-</u>	<u>81,463</u>
Earnings used in the computation of diluted earnings per share	<u>\$ (1,199,798)</u>	<u>\$ 1,871,824</u>
Weighted average number of ordinary shares in computation of basic earnings per share (in thousands)	5,418,096	5,453,579
Effect of potentially dilutive ordinary shares:		
Convertible bonds (in thousands)	-	457,481
Employees' compensation or bonuses issued to employees (in thousands)	<u>-</u>	<u>8,821</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share (in thousands)	<u>5,418,096</u>	<u>5,919,881</u>

If the Company offers to settle compensation or bonuses paid to employees in cash or shares, the Company assumes the entire amount of the compensation or bonuses would be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings 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.

29. CAPITAL MANAGEMENT

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

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

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				
Bonds payable	\$ 32,352,625	\$ 32,363,301	\$ 33,219,610	\$ 31,651,865
Bank loans	62,326,488	62,326,488	72,162,743	70,171,333

Some long-term borrowings are floating-rate financial liabilities, so their carrying amounts are their fair values. 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 0.67% in 2019 and 0.68% in 2018 prevailing in the market for long-term borrowings (Level 2). The fair values of bonds payable are based on those which are traded in the stock exchange and based on quoted market prices (Level 1).

b. 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:

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

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

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ <u>-</u>	\$ <u>434</u>	\$ <u>-</u>	\$ <u>434</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 26,865	\$ 26,865
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>80,991</u>	<u>80,991</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,856</u>	<u>\$ 107,856</u>
Financial liabilities at FVTPL				
Derivative instruments	\$ <u>-</u>	\$ <u>11,749</u>	\$ <u>-</u>	\$ <u>11,749</u>
Financial assets for hedging	\$ <u>-</u>	\$ <u>109</u>	\$ <u>9,479</u>	\$ <u>9,588</u>
Financial liabilities for hedging	\$ <u>50,997,687</u>	\$ <u>28,578</u>	\$ <u>3,955</u>	\$ <u>51,030,220</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 21,746	\$ 21,746
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>61,620</u>	<u>61,620</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,366</u>	<u>\$ 83,366</u>
Financial liabilities at FVTPL				
Derivative instruments	\$ <u>-</u>	\$ <u>221</u>	\$ <u>-</u>	\$ <u>221</u>
Financial assets for hedging	\$ <u>-</u>	\$ <u>22,453</u>	\$ <u>4,901</u>	\$ <u>27,354</u>
Financial liabilities for hedging	\$ <u>-</u>	\$ <u>239</u>	\$ <u>-</u>	\$ <u>239</u>

There were no transfers between Level 2 and 3 in the current and prior periods.

- 4) 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	The fair values of derivatives (except options) have been determined based on discounted cash flow analyses using interest yield curves applicable for the duration of the derivatives. The estimates and assumptions that the Company used to determine the fair values are identical to those used in the pricing of financial instruments for market participants.

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

The fair values of currency options and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of currency options 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 movements of Level 3 financial instruments are as follows:

	Multiplicator	Liquidity Discount
December 31, 2019	0.75-13.23	80%
December 31, 2018	0.74-15.29	80%
	Derivative Instruments	Equity Instruments
Balance at January 1, 2019	\$ 4,901	\$ 83,366
Recognized in other comprehensive income	<u>623</u>	<u>24,490</u>
Balance at December 31, 2019	<u>\$ 5,524</u>	<u>\$ 107,856</u>
	Derivative Instruments	Equity Instruments
Balance at January 1, 2018	\$ -	\$ 64,177
Adjustments on initial application of IFRS 9	-	43,019
Other comprehensive income recognized during the period	<u>4,901</u>	<u>(23,830)</u>
Balance at December 31, 2018	<u>\$ 4,901</u>	<u>\$ 83,366</u>

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

c. Categories of financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 434	\$ -
Financial assets for hedging	9,588	27,354
Financial assets at amortized cost (Note 1)	31,356,562	31,630,697
Financial assets at FVTOCI - equity instrument investment	107,856	83,366
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	11,749	221
Financial liabilities for hedging	51,030,220	239
Financial liabilities at amortized cost (Note 2)	119,888,720	120,519,575

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

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

d. Financial risk management objectives and policies

The Company has risk management and hedging strategies to respond to changes in the economic, financial environment and in the fuel market. To reduce the financial risks from changes in interest rates, in exchange rates and fuel prices, the Company has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by Company shareholders to reduce the impact of market price 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 Company has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging portion. This committee informs the Company of global economic and financial conditions, controls the Company's entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

The following details the Group's sensitivity to a one dollar increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the U.S. dollar. The sensitivity amount used when reporting foreign currency risk internally to key management personnel and which represents management's assessment of the reasonably possible change in foreign exchange rates is one dollar. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for the New Taiwan dollar strengthening or weakening one dollar against the U.S. dollar.

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax profit of \$40,775 thousand and increase in pre-tax other comprehensive income gain and losses of \$1,629,223 thousand in year ended December 31, 2019. A decrease in pre-tax profit of \$35,184 thousand and decrease in pre-tax other comprehensive income gain and losses of \$54,250 thousand in year ended December 31, 2018.

For the year ended December 31, 2019

The Company'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 Company 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. For the information related to lease contract as a hedging instruments, please refer to note 20.

December 31, 2019

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aviation fuel - forward exchange contracts	NTD/USD	NTD660,661/ USD22,000	2020.2.27- 2020.11.30	29.7-30.7	Financial assets for hedging - current/ liabilities for hedging - current	\$ 32	\$ 10,193
Aircraft rentals - forward exchange contracts	NTD/USD	NTD1,411,411/ USD47,000	2020.11.4	29.6-30.5	Financial assets for hedging - current/ liabilities for hedging - current	77	18,385

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 U.S. dollars

and aviation fuel) are \$(18,308) thousand and \$(10,161) thousand, respectively.

For the year ended December 31, 2019

Comprehensive Income	Hedging Gain Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedge		
Aircraft rentals	\$ (22,214)	\$ 28,374 (Note)
Aviation fuel	(10,161)	(53)
Aircraft prepayments	<u>(17,705)</u>	<u>-</u>
	<u>\$ (50,080)</u>	<u>\$ 28,321</u>

Note: Decrease in operating costs or foreign exchange loss.

For the year ended December 31, 2019, the hedging instruments settlement reclassified to prepaid equipment was \$(603) thousand.

December 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD1,669,231/ USD54,250	2019.1.17- 2019.12.23	28.3-30.7	Financial assets for hedging - current/ liabilities for hedging - current	\$ 22,453	\$ 239

The above hedging instruments are continuously applied to hedging accounting. The book value of other equity which belongs to each hedging items (aircraft rentals in U.S. dollar) are \$22,214 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	\$ 70,553	\$ (4,933) (Note)
Aircraft prepayments	<u>23,884</u>	<u>-</u>
	<u>\$ 94,437</u>	<u>\$ (4,933)</u>

Note: Increase in operating costs or foreign exchange loss.

For the year ended December 31, 2018, the hedging instruments settlement reclassified to prepaid equipment was \$12,118 thousand.

b) Interest rate risk

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

The risk is managed by the Company through maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	December 31	
	2019	2018
Fair value interest rate risk	\$ 83,350,312	\$ 33,523,710
Cash flow interest rate risk	73,930,965	70,758,743

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. One yard (25 basis) 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) and had all other variables been held constant, the Company's pre-tax profit for the year ended December 31, 2019 would have decreased by \$184,827 thousand.

Had interest rates increased one yard (25 basis) and had all other variables been held constant, the Company's pre-tax profit for the year ended December 31, 2018 would have decreased by \$176,897 thousand.

c) Other price risk

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

December 31, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NTD5,524	2020.3.31- 2020.12.31	USD49.65- USD80.75	Financial assets for hedging - current/ liabilities for hedging - current	\$ 9,479	\$ 3,955

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (fuel payments) is \$5,524 thousand.

For the year ended December 31, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	\$ 623	\$ (13,597)	(Note)

Note: Increase in operating costs.

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	USD72-USD88	Financial assets for hedging	\$ 4,901	\$ -

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value 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			
	2019		2018	
	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)
Fuel price increase of 5%	\$ -	\$ 7,973	\$ -	\$ -
Fuel price decrease of 5%	-	-	-	-

2) Credit risk

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

Operation - related credit risk

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

To assess individual customers, the Company consider into the financial condition of the customers, the credit rating agency rating, the Company's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Company uses certain credit enhancement tools to reduce the credit risk of specific customers.

Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

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

Endorsements given by the Company on behalf of its subsidiaries can be found in Notes 31(g).

3) Liquidity risk

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

Liquidity and interest risk rate table

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

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

December 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	0.1448	\$ 914,419	\$ 3,362,181	\$ 10,451,021
Floating interest rate liabilities	0.9576	14,284,090	34,457,400	14,787,869
Hedging instruments	3.1131	10,060,822	39,729,062	6,373,333
Bonds payable	2.5273	<u>10,823,905</u>	<u>19,871,174</u>	<u>3,383,401</u>
		<u>\$ 36,083,236</u>	<u>\$ 97,419,817</u>	<u>\$ 34,995,624</u>

December 31, 2018

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	1.0627	\$ 601,743	\$ -	\$ -
Floating interest rate liabilities	1.1084	14,050,574	39,852,965	18,293,128
Fixed interest rate liabilities	1.1800	2,005,900	-	-
Hedging instruments	-	239	-	-
Bonds payable	1.3905	<u>5,999,321</u>	<u>30,835,449</u>	<u>1,051,418</u>
		<u>\$ 22,657,777</u>	<u>\$ 70,688,414</u>	<u>\$ 19,344,546</u>

Loan commitments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Unused bank loan limit (unsecured)	\$ 18,422,000	\$ 17,337,000

31. RELATED-PARTY TRANSACTIONS

Except for the disclosures stated in other notes, transactions between the Company and its related parties are disclosed below:

a. Related parties' names and relationships

<u>Name</u>	<u>Relationship with the Company</u>
Taiwan Aircargo Terminal Company	Subsidiary
Taoyuan International Airport Service Co., Ltd.	Subsidiary
Sabre Travel Network (Taiwan), Ltd.	Subsidiary
Taiwan Airport Service Co., Ltd.	Subsidiary
Taiwan Airport Service (Samoa)	Subsidiary
Hwa Hsia	Subsidiary
Yestrip	Subsidiary
Global Sky Express	Subsidiary
Mandarin Airlines	Subsidiary
CAL Park	Subsidiary
CAL Hotel Co., Ltd.	Subsidiary
CAL-Asia Investment	Subsidiary
Dynasty Holidays, Inc.	Associate (become associate in January 2019)
CAL-Dynasty International Inc.	Subsidiary
Tigerair Taiwan Co., Ltd.	Subsidiary
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Subsidiary
Kaohsiung Catering Services	Subsidiary (become subsidiary in March 2018)
Asian Compressor Technology Services	Associate (disposal in January 2018)
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
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
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Company, spouse and second-degree relative

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31	
		2019	2018
Other income	Subsidiary	\$ 2,577,039	\$ 2,651,423
	Major shareholder of the Company	\$ 25,457	\$ 28,670
	Associate	\$ 1,239	\$ 523
	Joint venture investment	\$ 42,457	\$ 41,410

c. Purchases

Related Party Type	For the Year Ended December 31	
	2019	2018
Subsidiary	\$ 3,915,258	\$ 3,843,308
Major shareholder of the Company	\$ 56,474	\$ 64,188
Associate	\$ 414,106	\$ 501,609
Joint venture investment	\$ 1,911,091	\$ 1,912,995

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

Related Party Type	December 31	
	2019	2018
Subsidiary	\$ 222,038	\$ 289,268
Joint venture investment	7,760	7,589
Major shareholder of the Company	2,588	1,454
	\$ 232,386	\$ 298,311

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	
	2019	2018
Subsidiary	\$ 927,419	\$ 1,050,869
Associate	51,333	54,948
Joint venture investment	484,700	474,499
Major shareholder of the Company	5,982	3,368
	\$ 1,469,434	\$ 1,583,684

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)

The Company rented out planes to Mandarin Airlines under an operating lease contract. The monthly rent received is based on flight hours. In 2019 and 2018, the rentals received amounted to \$1,624,568 thousand and \$1,685,494 thousand, respectively.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. In 2019 and 2018, the Company paid rentals of about \$56,474 thousand and \$64,188 thousand, respectively.

In March 2010, the Company signed with CAL Park a yearly renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport. In 2019 and 2018, the Company paid rentals of both were \$231,288 thousand per year.

g. Endorsements and guarantees

	December 31			
	2019		2018	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
<u>The Company</u>				
CAL Park	\$ 3,850,000	\$ 2,129,400	\$ 3,850,000	\$ 2,339,700
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	-
Tigerair Taiwan	3,012,668	685,444	1,081,792	418,491
Taiwan Air Craft Maintenance	2,000,000	1,279,827	2,000,000	605,457

h. Bonds payable - related parties

Related parties that invested in the first issue of unsecured bonds in 2016 (Note 19) are summarized as follows:

Related Party	December 31, 2019	
	Units	Aggregate Par/Dollars
<u>The first issue of unsecured bonds in 2016</u>		
Mandarin Airlines	250	\$ 250,000
Sabre Travel Network (Taiwan)	50	50,000

In 2019, interest expenses was \$3,570 thousand. This bonds payable will be paid off in May 2021. As of December 31, 2019 the interest payable was \$2,142 thousand.

i. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 39,693	\$ 44,551
Post-employment benefits	<u>2,362</u>	<u>3,295</u>
	<u>\$ 42,055</u>	<u>\$ 47,846</u>

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

32. PLEDGED ASSETS

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Property, plant and equipment	\$ 26,956,631	\$ 37,468,142
Right-of-use asset	<u>64,262,830</u>	<u>-</u>
	<u>\$ 91,219,461</u>	<u>\$ 37,468,142</u>

33. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2019, except for the disclosures stated in other notes, the Company had commitments and contingent liabilities which were as follows:

- a. The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike on February 8, 2019, and the flights resumed normal operation on February 14, 2019. A total of 214 flights was cancelled and the accumulated revenue loss was about \$500 million. The initial estimated compensation for customer losses and other expenditures were about \$54 million (recognized as operating cost).
- b. In October 2019, the Company signed a contract with Airbus S.A.S. to purchase eleven A321neo aircraft and an option to purchase five A321neo aircraft. The total list price of the eleven aircraft is US\$1,676,413 thousand, and the list price of the option to purchase five aircraft is US\$769,922 thousand. The expected delivery period of the eleven aircraft ranges from 2024 to 2026. As of October 31, 2019, the list price of the fourteen aircraft has been paid in the amount of US\$17,014 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand.
- c. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three B777F aircraft and exercised the option to purchase three B777F aircraft. The total list price of the six aircraft is US\$2,320,315 thousand, and the expected delivery period is from 2020 to 2023. As of September 30, 2019, the list price has been paid in the amount of US\$241,650 thousand (recognized as prepayments for aircraft).

34. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

By the end of January, 2020, the Coronavirus that originated from Wuhan, the capital city of Hubei province in China, became a pandemic. The Company has complied and continues to comply with the travel alerts issued by the Taiwan Centers for Disease Control and has cancelled flights between several countries like China, Hong Kong, Japan and Korea. Other flights have flexible capacity depending on the demand. So far, the air transport services for passengers have been severely affected. In addition to adjusting the operation, the Company also takes measures about funding assistance, human resources, reducing expenditure, and asks the government for help in three main areas including guarantee for its operation, relief from the burden, and a recovery plan.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company 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, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 502,608	30.0300	\$ 15,093,328
EUR	18,401	33.6700	619,571
HKD	225,078	3.8595	868,689
JPY	5,531,849	0.2766	1,530,109
RMB	371,642	4.3048	1,599,846

Financial liabilities

Monetary items			
USD	2,179,056	30.0300	65,437,049
EUR	7,639	33.6700	257,211
HKD	67,529	3.8595	260,630
JPY	5,706,141	0.2766	1,578,319
RMB	132,622	4.3048	570,913

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 439,652	30.7692	\$ 13,527,732
EUR	20,511	35.2113	722,232
HKD	297,496	3.9231	1,167,107
JPY	5,521,288	0.2778	1,533,814
RMB	345,777	4.4803	1,549,187

Financial liabilities

Monetary items			
USD	405,468	30.7692	12,475,919
EUR	7,801	35.2113	274,697
HKD	70,900	3.9231	278,149
JPY	4,866,894	0.2778	1,352,023
RMB	126,546	4.4803	566,964

For the years ended December 31, 2019 and 2018, the Company's net foreign exchange (losses) gains were \$(262,610) thousand and \$10,812 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.

36. 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 30.
- b. Investment in mainland China: Table 7 (attached).

37. SEGMENT INFORMATION

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the fleet, which is jointly used for passenger and cargo services. Thus, the Company's sole reportable segment is the flight segment. For operating segment reporting in the financial statements, the Company's reportable segment comprises the flight and the non-flight business departments.

CHINA AIRLINES, LTD. AND INVESTEEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counterparty		Limit on Each Counterparty'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	\$ 11,310,754	\$ 3,850,000	\$ 3,850,000	\$ 2,129,400	\$ -	6.81	\$ 28,276,886	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,310,754	1,080,000	1,080,000	-	-	1.91	28,276,886	Y	N	N
		Tigerair Taiwan Co., Ltd.	77.17% subsidiary by direct and indirect holdings	11,310,754	3,055,475	3,012,668	685,444	-	5.33	28,276,886	Y	N	N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,310,754	2,000,000	2,000,000	1,279,827	-	3.54	28,276,886	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.

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(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, 2019				Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines ("Parent company")	<u>Shares</u>							
	Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,359,368	\$ 73,628	13.59	\$ 80,991	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	7,363	-	-	
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	26,865	11.00	26,865	
	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	<u>Shares</u>							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	18,796	-	18,796	-
Cal-Asia Investment	<u>Shares</u>							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets at FVTPL - current	-	-	2.59	-	Note 2
	HAECO Composite Structures (Jinjiang)	-	Financial assets at FVTOCI - non-current	-	101,365	5.45	101,365	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficiary certificates</u>							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	7,816,048	81,124	-	81,124	-
	FSITC Money Market Fund	-	Financial assets at FVTPL - current	497,740	89,145	-	89,145	-
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	6,444,010	81,065	-	81,065	-
	Capital Money Market Fund	-	Financial assets at FVTPL - current	2,842,146	46,035	-	46,035	-
Taiwan Airport Services	<u>Shares</u>							
	TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.4	-	-
	<u>Beneficial certificates</u>							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at FVTPL - current	1,671,657	20,253	-	20,253	-
	Fuh Hwa Global Bond Fund	-	Financial assets at FVTPL - current	1,233,211	18,045	-	18,045	-
Hwa Hsia	<u>Shares</u>							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	814,152	7,376	-	7,376	-
	<u>Beneficiary certificates</u>							
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,748	-	4,748	-

(Continued)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Kaohsiung Catering Services	<u>Beneficiary certificates</u>							
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	5,407,832	\$ 85,885	-	\$ 85,885	-
	Prudential Financial Return Fund	-	Financial assets at FVTPL - current	4,493,628	70,423	-	70,423	
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	1,106,807	15,035	-	15,035	
Tigerair Taiwan Co., Ltd.	<u>Government bond</u>							
	Philippines government bond	-	Amortized cost financial assets	-	299	Not applicable	299	

Note 1: The subsidiary's net asset value was \$80,991 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2019.

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)

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, 2019
(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 Tigerair Taiwan Co., Ltd.	Investments accounted for using the equity method	(Note 5)	Non-related party	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	-	\$ -

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.

Note 5: Subsidiaries planning initial public offering release stocks.

CHINA AIRLINES, LTD. AND INVESTEEES

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, 2019

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 524,457	0.39	30 days	\$ -	-	\$ (41,017)	(1.52)	-
	Taiwan Airport Services	Subsidiary	Purchase	445,472	0.33	40 days	-	-	(77,970)	(2.90)	-
	Mandarin Airlines	Subsidiary	Sale	(1,971,462)	1.35	2 months	-	-	158,123	1.83	-
	Mandarin Airlines	Subsidiary	Purchase	242,114	0.18	2 months	-	-	(247,997)	(9.21)	-
	Tigerair Taiwan	Subsidiary	Sale	(373,811)	0.26	1 months	-	-	42,642	0.49	-
	Tigerair Taiwan	Subsidiary	Purchase	152,914	0.11	1 months	-	-	(31,210)	(1.16)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,220,422	0.90	40 days	-	-	(347,127)	(12.90)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	561,443	0.42	60 days	-	-	(99,649)	(3.70)	-
	Hua Hsia	Subsidiary	Purchase	349,602	0.26	2 months	-	-	(37,860)	(1.41)	-
	CAL Park	Subsidiary	Purchase	231,288	0.17	2 months	-	-	(127)	-	-
	Cal Hotel	Subsidiary	Purchase	135,687	0.10	1 months	-	-	(40,293)	(1.50)	-
	Global Sky Express	Subsidiary	Sale	(101,421)	0.07	15 days	-	-	3,888	0.05	-
	Eastern United International Logistics	Equity-method investee	Purchase	216,368	0.16	2 months	-	-	(23,430)	(0.87)	-
	China Pacific Laundry Services	Equity-method investee	Purchase	120,088	0.09	2 months	-	-	(20,118)	(0.75)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,791,003	1.33	90 days	-	-	(464,582)	(17.26)	-
	China Aircraft Services	Equity-method investee	Purchase	169,400	0.13	30 days	-	-	(27,679)	(1.03)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	189,853	2.56	1 months	-	-	(27,760)	(3.74)	-
Cal Hotel	CAL Park	Same parent company	Purchase	114,281	26.07	1 months	-	-	(382)	(0.53)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	197,179	2.53	1 months	-	-	(24,389)	(3.66)	-

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, 2019

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 158,123	Note	\$ -	-	\$ 158,123	\$ -
Mandarin Airlines	China Airlines	Parent company	247,997	Note	-	-	245,364	-
China Pacific Catering Services	China Airlines	Parent company	464,582	3.90	-	-	311,356	-
Taoyuan International Airport Service	China Airlines	Parent company	347,127	3.43	-	-	340,924	-

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

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2019
(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, 2019			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2019	December 31, 2018	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	\$ 1,552,310	\$ 1,163	\$ 47,694	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,494,603	204,018	191,322	Notes 1 and 4
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,517,946	271,552	146,642	Note 4
	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	1,276,546	41,262	41,262	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	801,071	511,121	256,899	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	737,245	291,522	142,846	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	559,562	30,820	30,819	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	460,213	195,347	183,490	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	461,263	51,828	10,365	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	276,134	156,861	74,274	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	661,170	292,632	142,886	Note 5
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	479,259	16,787	18,020	Note 4
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	168,547	27,327	15,030	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	88,313	17,008	16,857	Notes 1 and 4
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,268	(480)	(384)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	10,004	(894)	(480)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,294	6,392	1,598	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,272,063	1,648,387	138,906,275	69.45	1,946,328	808,718	699,039	Note 4
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	921,989	(206,151)	(206,149)	Note 4
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	37,975	2,450	3,797,500	49.00	37,813	(144)	(70)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	200,000	15,433,000	7.72	216,243	808,718	77,587	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,281	156,861	1,689	-
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	42,717	9,678	3,387	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	347,551	23,107	23,107	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,867	(4)	(2)	-

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: Difference caused by lease arrangement between consolidated entities.

Note 5: Difference cause by acquisition.

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars/Renminbi/U.S. Dollars in Thousands, Unless Stated Otherwise)

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, 2019	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 10,95,480 (RMB 254,480)	Indirect (Note 1)	\$ 125,705 (US\$ 4,186)	\$ -	\$ -	\$ 125,705 (US\$ 4,186)	\$ 76,711 (RMB 17,107)	14.00	\$ 10,795 (RMB 2,395)	\$ 223,683 (RMB 51,962)	\$ 84,137 (US\$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,267 (RMB 14,000)	Indirect (Note 1)	58,482 (US\$ 1,947)	-	-	58,482 (US\$ 1,947)	89,573 (RMB 19,975)	14.00	12,606 (RMB 2,796)	124,071 (RMB 28,822)	26,286 (US\$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,495,195 (US\$ 83,090)	Indirect (Note 1)	64,601 (US\$ 2,151)	-	-	64,601 (US\$ 2,151)	-	2.589	-	-	-
HAECO Composite Structures (Jinjiang)	Composite material	350,240 (US\$ 11,663)	Indirect (Note 1)	19,099 (US\$ 636)	-	-	19,099 (US\$ 636)	-	5.45	-	42,718 (RMB 9,923)	-

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
\$267,886 (US\$8,920)	\$650,192 (Note 3)	\$36,079,270 (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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,095,480 (RMB 254,480)	Indirect (Note 5)	\$ 120,671 (US\$ 4,018)	\$ -	\$ -	\$ 120,671 (US\$ 4,018)	\$ 76,711 (RMB 17,107)	14.00	\$ 10,740 (RMB 2,395)	\$ 222,478 (RMB 51,682)	\$ 114,304 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,267 (RMB 14,000)	Indirect (Note 5)	57,860 (US\$ 1,927)	-	-	57,860 (US\$ 1,927)	89,573 (RMB 19,975)	14.00	12,540 (RMB 2,796)	124,279 (RMB 28,870)	42,240 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$178,532 (US\$5,945)	\$178,532 (US\$5,945)	\$349,906 (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 2019 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 U.S. dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)