

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2019 and 2018 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of China Airlines, Ltd. and its subsidiaries (the "Group") as of March 31, 2019 and 2018, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended, and the related notes, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

We did not review the financial statements of some subsidiaries included in the consolidated financial statements of the Group, but such statements were reviewed by other auditors. Our conclusion, insofar as it relates to the amounts included in the consolidated financial statements for these subsidiaries, is based solely on the reports of other auditors. The total assets of these subsidiaries were NT\$13,660,335 thousand and NT\$5,266,148 thousand, which constituted 4.62% and 2.30% of the consolidated total assets as of March 31, 2019 and 2018, and the total revenue was NT\$2,515,246 thousand and NT\$2,330,498 thousand, which constituted 6.23% and 5.87% of the consolidated total revenue for the three-month periods ended March 31, 2019 and 2018.

Scope of Review

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

Basis for Qualified Conclusion

As disclosed in Notes 13 and 14 to the accompanying consolidated financial statements, the financial statements of some non-significant subsidiaries and investments accounted for using the equity method were not reviewed. As of March 31, 2019 and 2018, the combined total assets of these non-significant subsidiaries were NT\$23,014,896 thousand and NT\$17,191,528 thousand, respectively, representing 7.79% and 7.52%, respectively, of the consolidated total assets, and the combined total liabilities of these non-significant subsidiaries were NT\$11,653,856 thousand and NT\$6,290,635 thousand, respectively, representing 4.94% and 3.74%, respectively, of the consolidated total liabilities; for the three-month periods ended March 31, 2019 and 2018, the

amounts of the combined comprehensive income of these non-significant subsidiaries were NT\$225,704 thousand and NT\$171,137 thousand, respectively, representing (107%) and 138%, respectively, of the consolidated total comprehensive income. As of March 31, 2019 and 2018, the aforementioned investments accounted for using the equity method were NT\$2,297,133 thousand and NT\$2,279,493 thousand, respectively; and for the three-month periods ended March 31, 2019 and 2018, the Group's share of the profit of such investments accounted for using the equity method were NT\$69,904 thousand and NT\$81,715 thousand, respectively.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and investments accounted for by using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2019 and 2018 and its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 8, 2019

Notice to Readers

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2019 (Reviewed)		December 31, 2018 (Audited)		March 31, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6 and 33)	\$ 23,352,393	8	\$ 24,937,537	11	\$ 21,851,248	10
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 33)	245,816	-	206,001	-	1,643,514	1
Financial assets at amortized cost (Notes 4 and 9)	1,022,871	-	3,856,660	2	1,066,954	-
Financial assets for hedging - current (Notes 4 and 33)	34,471	-	32,906	-	2,369	-
Notes and accounts receivable, net (Notes 4, 5, 10 and 33)	9,133,715	3	10,038,528	4	9,233,895	4
Notes and accounts receivable - related parties (Note 34)	10,022	-	9,043	-	10,928	-
Other receivables (Note 33)	834,849	-	879,191	-	774,728	-
Current tax assets (Notes 4 and 28)	30,548	-	18,948	-	29,276	-
Inventories, net (Notes 4 and 11)	8,635,279	3	8,654,710	4	8,757,780	4
Non-current assets held for sale (Notes 4 and 12)	-	-	46,154	-	520,139	-
Other assets - current (Notes 6 and 18)	2,485,416	1	4,147,882	2	4,762,314	2
Total current assets	45,785,380	15	52,827,560	23	48,653,145	21
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	150,315	-	132,191	-	133,291	-
Investments accounted for using the equity method (Notes 4 and 14)	2,297,133	1	2,200,149	1	2,279,493	1
Property, plant and equipment (Notes 4, 5, 15 and 35)	160,105,308	54	163,107,718	71	160,541,123	70
Right-of-use assets (Notes 4, 21 and 35)	75,696,713	26	-	-	-	-
Investment properties (Notes 4 and 16)	2,075,274	1	2,075,345	1	2,075,553	1
Other intangible assets (Notes 4 and 17)	1,180,239	-	1,210,796	1	1,198,210	1
Deferred income tax asset (Notes 4, 5 and 28)	5,116,575	2	5,152,070	2	5,478,287	2
Other assets - non-current (Notes 18, 21, 33, 35 and 36)	3,212,761	1	3,430,753	1	8,323,274	4
Total noncurrent assets	249,834,318	85	177,309,022	77	180,029,231	79
TOTAL	\$ 295,619,698	100	\$ 230,136,582	100	\$ 228,682,376	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 19)	\$ 4,200,000	2	\$ -	-	\$ 30,000	-
Short-term bills payable (Note 19)	820,000	-	-	-	20,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 33)	-	-	221	-	10,797	-
Financial liabilities for hedging - current (Notes 3, 4, 21 and 33)	6,038,467	2	560	-	94,761	-
Notes and accounts payable (Note 33)	1,540,406	1	1,594,487	1	1,092,755	1
Notes and accounts payable - related parties (Note 34)	522,206	-	532,815	-	531,628	-
Contract liabilities - current (Notes 4, 5 and 23)	18,550,487	6	19,546,455	9	16,584,300	7
Other payables (Notes 22 and 33)	12,669,941	4	14,146,198	6	11,338,760	5
Current tax liabilities (Notes 4 and 28)	232,039	-	164,181	-	61,525	-
Provisions - current (Notes 4, 24 and 33)	202,999	-	321,075	-	739,029	-
Lease liabilities - current (Notes 3, 4 and 21)	5,067,954	2	-	-	-	-
Bonds payable and put options of convertible bonds - current portion (Notes 4, 20 and 33)	2,750,000	1	4,445,900	2	4,424,611	2
Loans and debts - current portion (Notes 19, 33 and 35)	7,957,425	3	15,709,487	7	23,140,173	10
Capital lease obligations - current portion (Notes 4, 21, 33 and 35)	-	-	633,398	-	1,471,348	1
Other current liabilities (Note 33)	4,178,098	1	3,855,115	2	3,820,191	2
Total current liabilities	64,730,022	22	60,949,892	27	63,359,878	28
NON-CURRENT LIABILITIES						
Financial liabilities for hedging - non-current (Notes 3, 4, 21 and 33)	34,543,623	12	-	-	5,121	-
Bonds payable - non-current (Notes 4, 20 and 33)	25,743,068	9	28,473,710	12	23,914,970	10
Loans and debts - non-current (Notes 19, 33 and 35)	59,887,265	20	60,686,148	26	61,555,721	27
Contract liabilities - non-current (Notes 4 and 23)	1,998,012	1	1,903,665	1	1,810,534	1
Provisions - non-current (Notes 4, 24 and 33)	9,198,632	3	8,473,464	4	8,146,896	4
Deferred tax liabilities (Notes 4 and 28)	192,828	-	188,447	-	163,816	-
Lease liabilities - non-current (Notes 3, 4 and 21)	30,249,514	10	-	-	-	-
Capital lease obligations - non-current (Notes 4, 21, 33 and 35)	-	-	2,945	-	552,975	-
Accrued pension costs (Notes 4, 5 and 25)	8,634,866	3	8,803,382	4	7,930,513	4
Other noncurrent liabilities (Note 33)	622,688	-	607,845	-	899,629	-
Total non-current liabilities	171,070,496	58	109,139,606	47	104,980,175	46
Total liabilities	235,800,518	80	170,089,498	74	168,340,053	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)						
Share capital	54,209,846	18	54,209,846	24	54,709,846	24
Capital surplus	1,241,214	-	1,241,214	-	1,209,977	-
Retained earnings						
Legal reserve	351,923	-	351,923	-	206,092	-
Special reserve	118,810	-	118,810	-	-	-
Unappropriated retained earnings	901,224	1	1,144,928	1	1,583,865	1
Total retained earnings	1,371,957	1	1,615,661	1	1,789,957	1
Other equity	(1,957)	-	58,223	-	(93,773)	-
Treasury shares	(43,372)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	56,777,688	19	57,081,572	25	57,572,635	25
NON-CONTROLLING INTERESTS (Note 26)	3,041,492	1	2,965,512	1	2,769,688	1
Total equity	59,819,180	20	60,047,084	26	60,342,323	26
TOTAL	\$ 295,619,698	100	\$ 230,136,582	100	\$ 228,682,376	100

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

(With Deloitte & Touche auditors' review report dated May 8, 2019)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2019		2018	
	Amount	%	Amount	%
REVENUE (Notes 4, 27 and 34)	\$ 40,405,348	100	\$ 39,735,027	100
COSTS (Notes 4, 11, 17, 21, 24, 25, 27 and 34)	<u>36,191,909</u>	<u>90</u>	<u>35,941,020</u>	<u>90</u>
GROSS PROFIT	4,213,439	10	3,794,007	10
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>3,451,966</u>	<u>8</u>	<u>3,373,082</u>	<u>9</u>
OPERATING PROFIT	<u>761,473</u>	<u>2</u>	<u>420,925</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 27)	153,256	-	132,225	-
Other gains and losses (Notes 12, 15 and 27)	(66,441)	-	(58,702)	-
Finance costs (Notes 27 and 33)	(875,831)	(2)	(315,552)	(1)
Share of the profit of associates and joint ventures (Note 14)	<u>69,904</u>	<u>-</u>	<u>81,715</u>	<u>-</u>
Total non-operating income and expenses	<u>(719,112)</u>	<u>(2)</u>	<u>(160,314)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	42,361	-	260,611	-
INCOME TAX EXPENSE (Notes 4 and 28)	<u>189,237</u>	<u>1</u>	<u>68,617</u>	<u>-</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>(146,876)</u>	<u>(1)</u>	<u>191,994</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Loss on hedging instruments subject to basis adjustment	-	-	(36,561)	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	16,906	-	1,414	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	<u>(3,424)</u>	<u>-</u>	<u>8,433</u>	<u>-</u>
	<u>13,482</u>	<u>-</u>	<u>(26,714)</u>	<u>-</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 26)	\$ 23,676	-	\$ (27,657)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4, 21, 26 and 33)	(123,745)	-	(16,112)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	<u>22,043</u>	<u>-</u>	<u>2,635</u>	<u>-</u>
	<u>(78,026)</u>	<u>-</u>	<u>(41,134)</u>	<u>-</u>
Other comprehensive loss for the period, net of income tax	<u>(64,544)</u>	<u>-</u>	<u>(67,848)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ (211,420)</u>	<u>(1)</u>	<u>\$ 124,146</u>	<u>-</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ (243,704)	-	\$ 125,492	-
Non-controlling interests	<u>96,828</u>	<u>-</u>	<u>66,502</u>	<u>-</u>
	<u>\$ (146,876)</u>	<u>-</u>	<u>\$ 191,994</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ (312,357)	(1)	\$ 54,628	-
Non-controlling interests	<u>100,937</u>	<u>-</u>	<u>69,518</u>	<u>-</u>
	<u>\$ (211,420)</u>	<u>(1)</u>	<u>\$ 124,146</u>	<u>-</u>
EARNINGS (LOSSES) PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	<u>\$ (0.04)</u>		<u>\$ 0.02</u>	
Diluted	<u>\$ (0.04)</u>		<u>\$ 0.02</u>	

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

(With Deloitte & Touche auditors' review report dated May 8, 2019)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company													Non-controlling Interests	Total Equity
	Retained Earnings					Other Equity			Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total			
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income							
BALANCE AT JANUARY 1, 2018	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ 1,458,313	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (43,372)	\$ 57,023,237	\$ 2,134,282	\$ 59,157,519	
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637	-	40,637	
BALANCE AT JANUARY 1, 2018 AS RESTATED	54,709,846	799,999	206,092	-	1,458,373	(34,986)	-	42,351	-	(74,429)	(43,372)	57,063,874	2,134,282	59,198,156	
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978	-	409,978	
Basis adjustment to gain on hedging instruments	-	-	-	-	-	-	-	-	-	44,155	-	44,155	-	44,155	
Net profit for the three months ended March 31, 2018	-	-	-	-	125,492	-	-	-	-	-	-	125,492	66,502	191,994	
Other comprehensive income (loss) for the three months ended March 31, 2018, net of income tax	-	-	-	-	-	(22,947)	-	1,454	-	(49,371)	-	(70,864)	3,016	(67,848)	
Total comprehensive income (loss) for the three months ended March 31, 2018	-	-	-	-	125,492	(22,947)	-	1,454	-	(49,371)	-	54,628	69,518	124,146	
Non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	565,888	565,888	
BALANCE AT MARCH 31, 2018	<u>\$ 54,709,846</u>	<u>\$ 1,209,977</u>	<u>\$ 206,092</u>	<u>\$ -</u>	<u>\$ 1,583,865</u>	<u>\$ (57,933)</u>	<u>\$ -</u>	<u>\$ 43,805</u>	<u>\$ -</u>	<u>\$ (79,645)</u>	<u>\$ (43,372)</u>	<u>\$ 57,572,635</u>	<u>\$ 2,769,688</u>	<u>\$ 60,342,323</u>	
BALANCE AT JANUARY 1, 2019	\$ 54,209,846	\$ 1,241,214	\$ 351,923	\$ 118,810	\$ 1,144,928	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ (43,372)	\$ 57,081,572	\$ 2,965,512	\$ 60,047,084	
Net profit (loss) for the three months ended March 31, 2019	-	-	-	-	(243,704)	-	-	-	-	-	-	(243,704)	96,828	(146,876)	
Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	16,359	-	13,482	-	(98,494)	-	(68,653)	4,109	(64,544)	
Total comprehensive income (loss) for the three months ended March 31, 2019	-	-	-	-	(243,704)	16,359	-	13,482	-	(98,494)	-	(312,357)	100,937	(211,420)	
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	8,368	-	105	-	-	-	8,473	(24,957)	(16,484)	
BALANCE AT MARCH 31, 2019	<u>\$ 54,209,846</u>	<u>\$ 1,241,214</u>	<u>\$ 351,923</u>	<u>\$ 118,810</u>	<u>\$ 901,224</u>	<u>\$ 15,063</u>	<u>\$ -</u>	<u>\$ 56,206</u>	<u>\$ -</u>	<u>\$ (73,226)</u>	<u>\$ (43,372)</u>	<u>\$ 56,777,688</u>	<u>\$ 3,041,492</u>	<u>\$ 59,819,180</u>	

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

(With Deloitte & Touche auditors' review report dated May 8, 2019)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 42,361	\$ 260,611
Adjustments for:		
Depreciation expenses	8,206,346	4,789,869
Amortization expenses	49,842	50,459
Bad debt expense	8,382	12,325
Net (gain) loss on fair value changes of financial assets and liabilities held for trading	(11,140)	(2,866)
Interest income	(96,955)	(59,616)
Share of profit of associates and joint ventures	(69,904)	(81,715)
Loss (gain) on disposal of property, plant and equipment	(1,349)	278,321
Loss on disposal of non-current assets held for sale	10,462	124,290
Gain on disposal of investments	(7,656)	(456,426)
Loss on inventories and property, plant and equipment	307,608	404,188
Impairment loss recognized on property, plant and equipment and non-current assets held for sale	-	50,000
Net (loss) gain on foreign currency exchange	62,929	(146,230)
Finance costs	875,831	315,552
Recognition of provisions	1,061,129	865,122
Amortization of unrealized gain on sale - leasebacks	-	(3,628)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(28,863)	(691,721)
Financial liabilities held for trading	(221)	-
Notes and accounts receivable	859,879	(359,757)
Accounts receivable - related parties	(107,342)	24,890
Other receivables	88,887	(20,693)
Inventories	(240,529)	(340,853)
Financial assets at amortized cost	2,615,610	1,066,954
Other current assets	906,515	(1,242,279)
Accounts payable	(556,339)	456,971
Accounts payable - related parties	46,360	(94,607)
Other payables	(723,887)	(1,763,276)
Contract liabilities	(809,885)	202,672
Provisions	(480,795)	(301,966)
Other current liabilities	303,824	(25,683)
Accrued pension liabilities	(155,688)	(221,735)
Other liabilities	5,797	(13,170)
Cash generated from operations	12,161,209	3,076,003
Interest received	104,346	41,844
Interest paid	(910,199)	(395,770)
Income tax paid	(35,387)	(23,971)
Net cash generated from operating activities	<u>11,319,969</u>	<u>2,698,106</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from non-current assets held for sale	\$ 35,692	\$ 540,811
Payments for property, plant and equipment	(631,083)	(1,395,006)
Proceeds from disposal of property, plant and equipment	10,851	292,881
Increase in refundable deposits	(51,233)	(9,090)
Decrease in refundable deposits	38,620	31,429
Increase in prepayments for equipment	(1,568,331)	(5,610,010)
Increase in computer software costs	(21,786)	(30,819)
Increase in restricted assets	(6,844)	(28,096)
Net cash outflow on disposal of associates	(17,413)	-
Acquisition of subsidiaries	-	136,769
Net cash used in investing activities	<u>(2,211,527)</u>	<u>(6,071,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	4,200,000	50,000
Decrease in short-term loans	-	(140,000)
Increase in short-term bills payable	820,000	20,000
Repayments of bonds payable	(4,445,900)	(2,700,000)
Proceeds from long-term debts	688,993	6,617,000
Repayments of long-term debts and capital lease obligations	(9,277,712)	(7,208,421)
Repayments of the principal portion of lease liabilities	(2,725,995)	-
Proceeds of guarantee deposits received	40,094	49,600
Refund from guarantee deposits received	(42,815)	(27,511)
Issuance of corporate bonds	-	6,012,000
Net cash generated from financing activities	<u>(10,743,335)</u>	<u>2,672,668</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>49,749</u>	<u>(33,727)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,585,144)	(734,084)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>24,937,537</u>	<u>22,585,332</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 23,352,393</u>	<u>\$ 21,851,248</u>

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

(With Deloitte & Touche auditors' review report dated May 8, 2019)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) were approved by the board of directors and authorized for issue on May 8, 2019.

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

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

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

- IFRS 16 “Leases”

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

Definition of a lease

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

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

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

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

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

The Group does not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee applies to the leaseback portion.

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

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

The Group as lessor

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

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

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

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	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: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Statement of Compliance

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

Basis of Consolidation

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

Leases

2019

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

a. The Group as lessor

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

b. The Group as lessee

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

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

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

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

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

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

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

2018

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

a. Financial leases

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

b. Sales and leasebacks

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

1) Financial leases

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

2) Operating leases

If the selling price is equal to the fair value, the transaction gain or loss should be recognized immediately. If the selling price is above fair value, the difference between the fair value and the book value of the gain or loss should be recognized immediately; only the part of the selling price which is above fair value shall be deferred and amortized over the period of the lease.

Employee Benefits

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

Income Tax

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

Business Combinations

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

6. CASH AND CASH EQUIVALENTS

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand and revolving fund	\$ 398,043	\$ 413,139	\$ 418,632
Checking accounts and demand deposits	9,310,641	7,770,200	8,041,758
Cash equivalents			
Time deposits with original maturities of less than three months	12,533,288	15,784,323	10,979,115
Repurchase agreements collateralized by bonds	<u>1,110,421</u>	<u>969,875</u>	<u>2,411,743</u>
	<u>\$ 23,352,393</u>	<u>\$ 24,937,537</u>	<u>\$ 21,851,248</u>

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

	March 31, 2019	December 31, 2018	March 31, 2018
Bank balance	0%-1.90%	0%-1.90%	0%-1.90%
Time deposits with original maturities of less than three months	0.59%-3.20%	0.59%-3.55%	0.59%-4.7%
Repurchase agreements collateralized by bonds	0.55%-0.63%	0.63%-3.30%	0.38%-2.00%

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

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Financial assets - current</u>			
Financial assets mandatorily classified at FVTPL			
Hybrid financial assets			
Principal-protected notes	\$ -	\$ -	\$ 1,072,237
Derivative instruments	7,216	-	-
Non-derivative financial assets			
Beneficial certificates	238,600	206,001	478,427
Financial products	<u>-</u>	<u>-</u>	<u>92,850</u>
	<u>\$ 245,816</u>	<u>\$ 206,001</u>	<u>\$ 1,643,514</u>

Financial liabilities held for trading

Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts			
Current	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ 10,797</u>

- a. The Group and the bank have signed principal-protected notes with a duration of 1 to 3 months and a negotiated interest rate range of 0.63% to 4.24%.
- b. 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>March 31, 2019</u>			
Buy forward contracts	NTD/USD	2019.4.26-2019.10.29	NTD246,914/USD8,000
<u>December 31, 2018</u>			
Buy forward contracts	NTD/USD	2019.1.2-2019.1.31	NTD30,923/USD1,000
<u>March 31, 2018</u>			
Buy forward contracts	NTD/USD	2018.4.30-2019.1.31	NTD145,773/USD5,000

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

Investments in Equity Instruments

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Non-current</u>			
Foreign investments			
Unlisted shares	\$ 128,788	\$ 110,445	\$ 107,548
Domestic investments			
Unlisted shares	<u>21,527</u>	<u>21,746</u>	<u>25,743</u>
	<u>\$ 150,315</u>	<u>\$ 132,191</u>	<u>\$ 133,291</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 Group's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2019

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Current</u>			
Time deposits with original maturities of more than 3 months (e)	<u>\$ 1,022,871</u>	<u>\$ 3,856,660</u>	<u>\$ 1,066,954</u>

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.40% to 3.12%, from 0.40% to 1.36% and from 0.64% to 1.07% as of March 31, 2019, December 31, 2018 and March 31, 2018.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Notes receivable</u>	<u>\$ 415,630</u>	<u>\$ 598,824</u>	<u>\$ 700,640</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	8,952,971	9,667,010	8,727,916
Less: Allowance for impairment loss	<u>(234,886)</u>	<u>(227,306)</u>	<u>(194,661)</u>
	<u>8,718,085</u>	<u>9,439,704</u>	<u>8,533,255</u>
	<u>\$ 9,133,715</u>	<u>\$ 10,038,528</u>	<u>\$ 9,233,895</u>

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

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

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

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

March 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	0.05%	0.06%	1.15%	23.73%	99.57%	
Gross carrying amount	\$ 7,356,799	\$ 1,035,131	\$ 303,680	\$ 38,842	\$ 218,519	\$ 8,952,971
Loss allowance (lifetime ECLs)	<u>(3,929)</u>	<u>(658)</u>	<u>(3,504)</u>	<u>(9,216)</u>	<u>(217,579)</u>	<u>(234,886)</u>
Amortized cost	<u>\$ 7,352,870</u>	<u>\$ 1,034,473</u>	<u>\$ 300,176</u>	<u>\$ 29,626</u>	<u>\$ 940</u>	<u>\$ 8,718,085</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	\$ 7,856,048	\$ 1,424,421	\$ 103,498	\$ 76,415	\$ 206,628	\$ 9,667,010
Loss allowance (lifetime ECLs)	<u>(4,546)</u>	<u>(856)</u>	<u>(3,796)</u>	<u>(16,642)</u>	<u>(201,466)</u>	<u>(227,306)</u>
Amortized cost	<u>\$ 7,851,502</u>	<u>\$ 1,423,565</u>	<u>\$ 99,702</u>	<u>\$ 59,773</u>	<u>\$ 5,162</u>	<u>\$ 9,439,704</u>

March 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%	0.03%	0.32%	11.29%	96.56%	
Gross carrying amount	\$ 7,175,503	\$ 1,003,312	\$ 281,463	\$ 81,653	\$ 185,985	\$ 8,727,916
Loss allowance (lifetime ECLs)	<u>(4,661)</u>	<u>(278)</u>	<u>(909)</u>	<u>(9,218)</u>	<u>(179,595)</u>	<u>(194,661)</u>
Amortized cost	<u>\$ 7,170,842</u>	<u>\$ 1,003,034</u>	<u>\$ 280,554</u>	<u>\$ 72,435</u>	<u>\$ 6,390</u>	<u>\$ 8,533,255</u>

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

	For the Three Months Ended March 31	
	2019	2018
Balance at January 1, 2019 per IFRS 9	\$ 227,306	\$ 181,868
Add: Net remeasurement of loss allowance	8,382	12,325
Less: Amounts written off	(785)	(477)
Foreign exchange gains and losses	-	945
Disposal of a subsidiary	<u>(17)</u>	<u>-</u>
Balance at March 31, 2019	<u>\$ 234,886</u>	<u>\$ 194,661</u>

11. INVENTORIES

	March 31, 2019	December 31, 2018	March 31, 2018
Aircraft spare parts	\$ 7,455,640	\$ 7,847,082	\$ 7,848,161
Items for in-flight sale	556,688	556,365	576,017
Work in process - maintenance services	598,592	227,975	312,725
Others	<u>24,359</u>	<u>23,288</u>	<u>20,877</u>
	<u>\$ 8,635,279</u>	<u>\$ 8,654,710</u>	<u>\$ 8,757,780</u>

The operating costs recognized for the three months ended March 31, 2019 and 2018 included losses from inventory write-downs of \$262,974 thousand and \$216,399 thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

	March 31, 2019	December 31, 2018	March 31, 2018
Aircraft held for sale	<u>\$ -</u>	<u>\$ 46,154</u>	<u>\$ 520,139</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 carrying amount 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.

For the three months ended March 31, 2019 and 2018, the Company retired a part of its old aircraft and recognized disposal losses of \$10,462 thousand and \$124,290 thousand. The fair value was determined according to similar transactions of the related market, and the proposed sale price was based on the current status of the aircraft. The fair value measurement is classified as Level 3.

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

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

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

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the three months ended March 31, 2019 and 2018 of these subsidiaries was reported according to information that was not independently reviewed except for that of Mandarin Airlines and Tigerair Taiwan Co., Ltd.

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

The Group paid \$243,743 thousand on March 7, 2018 to acquire an additional 18% of Kaohsiung Catering, Ltd. (Kaohsiung Catering) of which the Group's total holding of the issued share capital exceeded 50%. Because the Group did have control over the investee, Kaohsiung Catering is listed as a subsidiary. For the disclosure of the Group'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 Group's holding of the issued share capital decreased from 51% to 20%. Dynasty Holidays was classified as an associate since the Group lost control of the subsidiary. Therefore, the relevant assets and liabilities were not consolidated in the current period, and only the profit and loss from January 1, 2019 to January 31, 2019 was consolidated. For the information about the disposal of the subsidiary, please refer to Note 31.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	March 31, 2019	December 31, 2018	March 31, 2018
Investments in associates	\$ 1,259,016	\$ 1,217,863	\$ 1,284,152
Investments in jointly controlled entities	<u>1,038,117</u>	<u>982,286</u>	<u>995,341</u>
	<u>\$ 2,297,133</u>	<u>\$ 2,200,149</u>	<u>\$ 2,279,493</u>

a. Investments in associates

The amount of investments in associates were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Unlisted companies</u>			
China Aircraft Services	\$ 499,664	\$ 497,362	\$ 479,209
Dynasty Holidays	10,036	-	-
Airport Air Cargo Terminal (Xiamen)	457,207	442,891	493,563
Airport Air Cargo Service (Xiamen)	245,236	233,417	266,631
Eastern United International Logistics (Holdings) Ltd.	<u>46,873</u>	<u>44,193</u>	<u>44,749</u>
	<u>\$ 1,259,016</u>	<u>\$ 1,217,863</u>	<u>\$ 1,284,152</u>

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

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

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

	<u>For the Three Months Ended March 31</u>	
	2019	2018
China Aircraft Services	\$ 1,850	\$ (1,677)
Asian Compressor Technology Services	(3)	-
Kaohsiung Catering Services	4,140	3,508
Airport Air Cargo Terminal (Xiamen)	6,429	6,912
Airport Air Cargo Service (Xiamen)	1,657	976
Eastern United International Logistics (Holdings) Ltd.	<u>-</u>	<u>15,113</u>
	<u>\$ 14,073</u>	<u>\$ 24,832</u>

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

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

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
China Pacific Catering Services	\$ 858,272	\$ 805,157	\$ 810,345
China Pacific Laundry Services	169,617	166,901	174,770
NORDAM Asia Ltd.	2,358	2,358	2,360
Delica International Co., Ltd.	<u>7,870</u>	<u>7,870</u>	<u>7,866</u>
	<u>\$ 1,038,117</u>	<u>\$ 982,286</u>	<u>\$ 995,341</u>

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

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

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

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

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

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

	For the Three Months Ended March 31	
	2019	2018
China Pacific Catering Services	\$ 53,115	\$ 53,381
China Pacific Laundry Services	2,716	3,541
NORDAM Asia Ltd.	-	(39)
Delica International Co., Ltd.	<u>-</u>	<u>-</u>
	<u>\$ 55,831</u>	<u>\$ 56,883</u>

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2018	\$ 922,626	\$ 13,698,308	\$ 263,427,144	\$ 26,187,556	\$ 16,230,011	\$ 320,465,645
Additions	-	13,360	911,208	-	470,438	1,395,006
Disposals	-	(44)	(18,776,532)	(1,245,852)	(89,845)	(20,112,273)
Reclassification	-	885	858,370	269,366	49,816	1,178,437
Net exchange differences	(12,306)	(21,876)	-	-	(2,239)	(36,421)
Acquisitions through business combinations	<u>76,704</u>	<u>220,318</u>	<u>-</u>	<u>-</u>	<u>256,368</u>	<u>553,390</u>
Balance at March 31, 2018	<u>\$ 987,024</u>	<u>\$ 13,910,951</u>	<u>\$ 246,420,190</u>	<u>\$ 25,211,070</u>	<u>\$ 16,914,549</u>	<u>\$ 303,443,784</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2018	\$ -	\$ (6,137,495)	\$ (136,594,765)	\$ (14,142,872)	\$ (9,972,982)	\$ (166,848,114)
Depreciation expenses	-	(104,679)	(3,976,314)	(489,372)	(219,434)	(4,789,799)
Disposals	-	44	18,412,073	966,677	77,759	19,456,553
Impairment loss	-	-	(50,000)	-	-	(50,000)
Reclassification	-	-	9,320,501	-	(3,883)	9,316,618
Net exchange differences	<u>-</u>	<u>10,210</u>	<u>-</u>	<u>-</u>	<u>1,871</u>	<u>12,081</u>
Balance at March 31, 2018	<u>\$ -</u>	<u>\$ (6,231,920)</u>	<u>\$ (112,888,505)</u>	<u>\$ (13,665,567)</u>	<u>\$ (10,116,669)</u>	<u>\$ (142,902,661)</u>

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,015,564	\$ 13,993,585	\$ 259,695,130	\$ 25,805,008	\$ 17,917,780	\$ 318,427,067
Additions	-	6,183	378,837	-	246,063	631,083
Disposals	-	-	(1,022,195)	(22,977)	(65,242)	(1,110,414)
Reclassification	-	2,993	24,252,637	(23,379,455)	290,685	1,166,860
Net exchange differences	1,678	-	-	-	-	1,678
Disposal of a subsidiary	-	-	-	(4,474)	(2,158)	(6,632)
Balance at March 31, 2019	<u>\$ 1,017,242</u>	<u>\$ 14,002,761</u>	<u>\$ 283,304,409</u>	<u>\$ 2,398,102</u>	<u>\$ 18,387,128</u>	<u>\$ 319,109,642</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2019	\$ -	\$ (6,574,873)	\$ (123,507,657)	\$ (14,634,822)	\$ (10,601,997)	\$ (155,319,349)
Depreciation expenses	-	(103,004)	(4,432,636)	(532,944)	(231,259)	(5,299,843)
Disposals	-	-	977,478	22,977	64,467	1,064,922
Reclassification	-	-	(13,172,836)	13,731,051	554	558,769
Net exchange differences	-	(8,401)	-	-	(4,271)	(12,672)
Disposal of a subsidiary	-	-	-	2,112	1,727	3,839
Balance at March 31, 2019	<u>\$ -</u>	<u>\$ (6,686,278)</u>	<u>\$ (140,135,651)</u>	<u>\$ (1,411,626)</u>	<u>\$ (10,770,779)</u>	<u>\$ (159,004,334)</u>

(Concluded)

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

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

Regarding changes in fleet composition and the future retirement plan, the Group recognized impairment losses on aircraft equipment for the three months ended March 31, 2018 of \$50,000 thousand based on the difference between the recoverable amount, which applied the fair value (Level 3), and the carrying amount. The fair value was determined based on aircraft conditions and market estimates.

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

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

16. INVESTMENT PROPERTIES

	March 31, 2019	December 31, 2018	March 31, 2018
Carrying amount			
Investment properties	<u>\$ 2,075,274</u>	<u>\$ 2,075,345</u>	<u>\$ 2,075,553</u>

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

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

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

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

17. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Goodwill	Accumulated Amortization	Net Value
Balance at January 1, 2018	\$ 2,039,602	\$ -	\$ (1,020,257)	\$ 1,019,345
Additions	30,819	-	-	30,819
Amortization expenses	-	-	(50,459)	(50,459)
Acquisitions through business combinations	686	186,197	-	186,883
Reclassification	12,064	-	(540)	11,524
Effects of exchange rate changes	-	-	98	98
Balance at March 31, 2018	<u>\$ 2,083,171</u>	<u>\$ 186,197</u>	<u>\$ (1,071,158)</u>	<u>\$ 1,198,210</u>
Balance at January 1, 2019	\$ 2,237,382	\$ 186,197	\$ (1,212,783)	\$ 1,210,796
Additions	21,786	-	-	21,786
Amortization expenses	-	-	(49,842)	(49,842)
Acquisitions through business combinations	(3,858)	-	1,357	(2,501)
Balance at March 31, 2019	<u>\$ 2,255,310</u>	<u>\$ 186,197</u>	<u>\$ (1,261,268)</u>	<u>\$ 1,180,239</u>

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

18. OTHER ASSETS

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Current</u>			
Temporary payments	\$ 167,769	\$ 556,860	\$ 186,522
Prepayments	1,565,279	3,028,808	3,739,364
Restricted assets	20,412	18,623	161,550
Others	<u>731,956</u>	<u>543,591</u>	<u>674,878</u>
	<u>\$ 2,485,416</u>	<u>\$ 4,147,882</u>	<u>\$ 4,762,314</u>
<u>Non-current</u>			
Prepayments for aircraft	\$ 593,921	\$ 529,963	\$ 5,503,297
Prepayments - long-term	1,356,804	1,603,400	1,349,216
Refundable deposits	1,059,590	1,089,690	1,363,121
Restricted assets	98,954	100,141	96,398
Others	<u>103,492</u>	<u>107,559</u>	<u>11,242</u>
	<u>\$ 3,212,761</u>	<u>\$ 3,430,753</u>	<u>\$ 8,323,274</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and ATR72-600 aircraft. All A350-900 has been delivered at October 2018, for details of the contract for the purchase of the ATR72-600 aircraft, refer to Note 36.

19. BORROWINGS

a. Short-term loans

	March 31, 2019	December 31, 2018	March 31, 2018
Bank loans - unsecured	\$ <u>4,200,000</u>	\$ <u>-</u>	\$ <u>30,000</u>
Interest rates	0.87%-1.04%	-	1.16%

b. Short-term and bills payable

	March 31, 2019	December 31, 2018	March 31, 2018
Commercial paper	\$ 820,000	\$ -	\$ 20,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 820,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>
Annual discount rate	1.01%-1.04%	-	0.44%

c. Long-term debts

	March 31, 2019	December 31, 2018	March 31, 2018
Unsecured bank loans	\$ 5,512,500	\$ 9,354,457	\$ 21,876,833
Secured bank loans	36,107,660	36,330,211	34,081,325
Commercial paper			
Proceeds from issue	26,260,000	30,770,000	28,800,000
Less: Unamortized discounts	<u>35,470</u>	<u>59,033</u>	<u>62,264</u>
	67,844,690	76,395,635	84,695,894
Less: Current portion	<u>7,957,425</u>	<u>15,709,487</u>	<u>23,140,173</u>
	<u>\$ 59,887,265</u>	<u>\$ 60,686,148</u>	<u>\$ 61,555,721</u>
Interest rates	0.92%-1.78%	0.92%-1.46%	0.92%-1.56%

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

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

	March 31, 2019	December 31, 2018	March 31, 2018
Periods	2007.5.24- 2030.4.25	2007.5.24- 2030.4.25	2007.5.24- 2029.11.9

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2022, were used by the Group to guarantee the commercial paper issued. As of March 31, 2019, December 31, 2018 and March 31, 2018, such commercial paper was issued at discount rates of 1.0377%-1.1660%, 1.0693%-1.2960% and 1.0517%-1.2987%, respectively.

20. BONDS PAYABLE

	March 31, 2019	December 31, 2018	March 31, 2018
Unsecured corporate bonds first-time issued in 2013	\$ 2,750,000	\$ 5,500,000	\$ 5,500,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	2,350,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	4,500,000	-

(Continued)

	March 31, 2019	December 31, 2018	March 31, 2018
Convertible bonds fifth-time issues	\$ -	\$ 1,695,900	\$ 1,674,611
Convertible bonds sixth-time issues	<u>5,693,068</u>	<u>5,673,710</u>	<u>5,614,970</u>
	28,493,068	32,919,610	28,339,581
Less: Current portion and put option of convertible bonds	<u>2,750,000</u>	<u>4,445,900</u>	<u>4,424,611</u>
	<u>\$ 25,743,068</u>	<u>\$ 28,473,710</u>	<u>\$ 23,914,970</u> (Concluded)

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	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	2016.5.26-2021.5.26	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	2016.9.27-2021.9.27	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.5.19-2020.5.19	Principal repayable on due date; indicator rate; payable annually	1.2
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	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 November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.32
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Unless bonds are converted to share capital or redeemed, principal repayable one time in December 2018; 1.8245 discount rate p.a.	-
Five-year convertible bonds - issued at discount in January 2018; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.1.30-2023.1.30	Unless bonds are converted to share capital or redeemed, principal repayable one time in January 2023; 1.3821 discount rate p.a.	-

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 and Sabre Travel Network (Taiwan), who held a cumulative face value of \$300,000 thousand which was eliminated from the consolidated financial statements.

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

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

- b. The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because part of the holders exercise selling rights on December 26, 2016, 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.
- c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.
- d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's ordinary shares. The initial conversion price was set at NT\$12.24, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of August 14, 2018, the conversion price was adjusted to NT\$11.38, and corporate bonds with a face value of NT\$3,316,800 thousand were converted to 270,985 thousand shares 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.

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>

21. LEASE AGREEMENTS

Year 2019

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Land	\$ 8,439,908
Buildings	1,227,444
Flight equipment	66,027,560
Other equipment	<u>1,801</u>
	<u>\$ 75,696,713</u>
	For the Three Months Ended March 31, 2019
Additions to right-of-use assets	<u>\$ 711,915</u>
Depreciation for right-of-use assets	
Land	\$ 104,901
Buildings	188,041
Flight equipment	2,612,959
Other equipment	<u>532</u>
	<u>\$ 2,906,433</u>

b. Lease liabilities - 2019

	March 31, 2019
Carrying amounts	
Current	<u>\$ 5,067,954</u>
Non-current	<u>\$ 30,249,514</u>

Range of discount rate for lease liabilities (include US lease hedging instruments):

	March 31, 2019
Land	0%-2.87%
Buildings	0%-3.04%
Flight equipment	2.00%-3.34%
Other equipment	1.06%-1.73%

c. Financial liabilities under hedge accounting

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

	Maturity Date	Subject	Carrying Value
March 31, 2019	2021.4.30-2028.5.31	Financial liabilities for hedging - current	\$ 6,037,462
		Financial liabilities for hedging - non-current	34,543,623

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the three months ended March 31, 2019	\$ (124,864)	\$ -

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

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

	March 31, 2019
Refundable deposits	\$ 676,423
Credit guarantees	1,622,859

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

If the amount of the extended lease period is included in the lease liability, the lease liability will increase by \$865,173 thousand on March 31, 2019.

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

e. Other lease information

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

2019

**For the Three
Months Ended
March 31, 2019**

Short-term and low price lease payment	<u>\$ 8,303</u>
Total of lease cash outflow	<u>\$ (2,808,101)</u>

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

Year 2018

1) Sale-leaseback finance leases

	December 31, 2018	March 31, 2018
<u>Minimum lease payments - flight equipment</u>		
Within one year	\$ 596,000	\$ 1,434,000
Beyond one year and within five years	<u> -</u>	<u> 522,000</u>
Present value of minimum lease payments	<u>\$ 596,000</u>	<u>\$ 1,956,000</u>
Interest rates	1.0680%	1.0617%-1.1317%

The Group had leased the engines of a total of three aircraft, A330-300, under sale-leaseback contracts under finance leases as of March 31, 2018. The lease terms are from June 2006 to April 2019. During the lease term, the Group retained all risks and rewards attached to the aircraft and engines and enjoyed the same substantive rights as were enjoyed prior to the transaction. The interest rates underlying all obligations under such finance leases were floating. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts do not include interest expense.

2) Finance leases

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

	December 31, 2018	March 31, 2018
<u>Minimum lease payments - Cargo Terminal and others</u>		
Within one year	\$ 37,998	\$ 37,619
Beyond one year and within five years	<u> 2,974</u>	<u> 31,496</u>
	40,972	69,115
Less: Finance costs	<u> (629)</u>	<u> (792)</u>
Present value of minimum lease payments	<u>\$ 40,343</u>	<u>\$ 68,323</u>

(Continued)

	December 31, 2018	March 31, 2018
Present value of minimum lease payments - <u>Cargo Terminal and others</u>		
Within one year	\$ 37,398	\$ 37,348
Beyond one year and within five years	<u>2,945</u>	<u>30,975</u>
	<u>\$ 40,343</u>	<u>\$ 68,323</u>
Discount rate	4.756%	4.756%
Total amount of present value of minimum lease payments		
Current	\$ 633,398	\$ 1,471,348
Non-current	<u>2,945</u>	<u>552,975</u>
	<u>\$ 636,343</u>	<u>\$ 2,024,323</u> (Concluded)

3) Operating lease arrangements (include sale-leaseback operating leases)

As of December 31, 2018 and March 31, 2018, the refundable deposits paid by the Group under operating lease contracts were \$693,466 thousand and \$885,807 thousand, respectively. Some of the guarantees were secured by credit guarantees, and outstanding credit guarantees as of December 31, 2018 and March 31, 2018 were \$1,682,774 thousand and \$1,362,259 thousand, respectively.

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

	December 31, 2018	March 31, 2018
Up to 1 year	\$ 11,785,442	\$ 11,393,712
Over 1 year to 5 years	44,559,429	42,052,693
Over 5 years	<u>21,685,499</u>	<u>27,266,965</u>
	<u>\$ 78,030,370</u>	<u>\$ 80,713,370</u>

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

	For the Three Months Ended March 31, 2018
Minimum lease payments	<u>\$ 2,888,460</u>

22. OTHER PAYABLES

	March 31, 2019	December 31, 2018	March 31, 2018
Fuel costs	\$ 3,615,683	\$ 3,822,018	\$ 3,390,667
Ground service expenses	1,301,543	1,167,214	1,259,301
Repair expenses	1,102,264	1,031,700	797,988
Interest expenses	224,876	266,268	210,832
Short-term employee benefits	1,611,412	2,237,409	1,708,040
Terminal surcharges	955,500	1,151,578	909,226
Commission expenses	546,368	484,341	342,903
Others	<u>3,312,295</u>	<u>3,985,670</u>	<u>2,719,803</u>
	<u>\$ 12,669,941</u>	<u>\$ 14,146,198</u>	<u>\$ 11,338,760</u>

23. CONTRACT LIABILITIES/DEFERRED REVENUE

	March 31, 2019	December 31, 2018	March 31, 2018
Frequent flyer program	\$ 2,591,215	\$ 2,493,551	\$ 2,444,407
Advance ticket sales	<u>17,957,284</u>	<u>18,956,569</u>	<u>15,950,427</u>
	<u>\$ 20,548,499</u>	<u>\$ 21,450,120</u>	<u>\$ 18,394,834</u>
Current	\$ 18,550,487	\$ 19,546,455	\$ 16,584,300
Non-current	<u>1,998,012</u>	<u>1,903,665</u>	<u>1,810,534</u>
	<u>\$ 20,548,499</u>	<u>\$ 21,450,120</u>	<u>\$ 18,394,834</u>

The advances received originally included in deferred revenue were reclassified as the contract liabilities after the application of IFRS 15 on January 1, 2018

24. PROVISIONS

	March 31, 2019	December 31, 2018	March 31, 2018
Operating leases - aircraft	<u>\$ 9,401,631</u>	<u>\$ 8,794,539</u>	<u>\$ 8,885,925</u>
Current	\$ 202,999	\$ 321,075	\$ 739,029
Non-current	<u>9,198,632</u>	<u>8,473,464</u>	<u>8,146,896</u>
	<u>\$ 9,401,631</u>	<u>\$ 8,794,539</u>	<u>\$ 8,885,925</u>

	Aircraft Lease Contracts
Balance at January 1, 2018	\$ 8,489,308
Additional provisions recognized	865,122
Usage	(301,966)
Effects of exchange rate changes	<u>(166,539)</u>
Balance at March 31, 2018	<u>\$ 8,885,925</u>
Balance at January 1, 2019	\$ 8,794,539
Additional provisions recognized	1,061,129
Usage	(480,795)
Effects of exchange rate changes	<u>26,758</u>
Balance at March 31, 2019	<u>\$ 9,401,631</u>

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

25. RETIREMENT BENEFIT PLANS

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

	For the Three Months Ended March 31	
	2019	2018
Operating costs	\$ 245,872	\$ 253,368
Operating expenses	<u>106,723</u>	<u>113,276</u>
	<u>\$ 352,595</u>	<u>\$ 366,644</u>

26. EQUITY

a. Share capital

Ordinary shares

	March 31, 2019	December 31, 2018	March 31, 2018
Numbers of shares authorized (in thousands)	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>
Amount of shares authorized	<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>
Amount of shares issued	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>	<u>\$ 54,709,846</u>

b. Capital surplus

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

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

The capital surplus arising from long-term investments and employee share options may not be used for any reason except to offset deficits. The capital surplus arising from share options for employees and convertible bonds, cannot be used.

c. Appropriation of earnings and dividend policy

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

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

1) Appropriation of earnings in 2017

The appropriation of earnings for 2017 was resolved in the board of directors meeting on June 27, 2018. The appropriation of earnings 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 board of directors meeting on March 20, 2019. The appropriation of earnings 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

Rotation Special reserve is \$105,844 thousand.

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

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance on January 1, 2018	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$(107,641)
Adjustments on initial application of IFRS 9	-	(1,774)	42,351	74,429	(74,429)	40,577
Balance on January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	(30,702)	-	-	-	-	(30,702)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	(74,169)	(74,169)

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 21,525	\$ 21,525
Unrealized gain on financial assets at fair value through other comprehensive income	-	-	1,414	-	-	1,414
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	<u>6,557</u>	<u>-</u>	<u>1,249</u>	<u>-</u>	<u>743</u>	<u>8,549</u>
Other comprehensive income (loss) recognized in the period	<u>(22,947)</u>	<u>-</u>	<u>1,454</u>	<u>-</u>	<u>(49,371)</u>	<u>(70,864)</u>
Transfers of initial carrying amount of hedged items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,155</u>	<u>44,155</u>
Balance on March 31, 2018	<u>\$ (57,933)</u>	<u>\$ -</u>	<u>\$ 43,805</u>	<u>\$ -</u>	<u>\$ (79,645)</u>	<u>\$ (93,773)</u>
Balance on January 1, 2019	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	19,583	-	-	-	-	19,583
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	(107,629)	(107,629)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	(16,132)	(16,132)
Unrealized gain on financial assets at fair value through other comprehensive income	-	-	16,906	-	-	16,906
Effects of income tax	<u>(3,224)</u>	<u>-</u>	<u>(3,424)</u>	<u>-</u>	<u>25,267</u>	<u>18,619</u>
Other comprehensive income (loss) recognized in the period	<u>16,359</u>	<u>-</u>	<u>13,482</u>	<u>-</u>	<u>(98,494)</u>	<u>(68,653)</u>
Dispose of subsidiary	<u>8,368</u>	<u>-</u>	<u>105</u>	<u>-</u>	<u>-</u>	<u>8,473</u>
Balance on March 31, 2019	<u>\$ 15,063</u>	<u>\$ -</u>	<u>\$ 56,206</u>	<u>\$ -</u>	<u>\$ (73,226)</u>	<u>\$ (1,957)</u>

(Concluded)

e. Non-controlling interests

	For the Three Months Ended March 31	
	2019	2018
Beginning balance	\$ 2,965,512	\$ 2,134,282
Net income attributable to non-controlling interests	96,828	66,502
Exchange differences on translating foreign operations	4,093	3,045
Gain (loss) on hedging instruments	46	(6)
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	<u>(30)</u>	<u>(23)</u>
	<u>4,109</u>	<u>3,016</u>
Dispose of subsidiaries	(24,957)	-
Non-controlling interests arising from acquisition of subsidiaries	<u>-</u>	<u>565,888</u>
Ending balance	<u>\$ 3,041,492</u>	<u>\$ 2,769,688</u>

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of March 31, 2019 and 2018 and were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year	Number of Shares, End of Year
<u>Three months ended March 31, 2019</u>			
Company's shares held by its subsidiaries reclassified from investments in shares of ordinary shares to treasury shares	<u>2,889</u>	<u>-</u>	<u>2,889</u>
<u>Three months ended March 31, 2018</u>			
Company's shares held by its subsidiaries reclassified from investments in shares of ordinary shares to treasury shares	<u>2,889</u>	<u>-</u>	<u>2,889</u>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>March 31, 2019</u>			
Mandarin Airlines	2,075	\$ 20,456	\$ 20,456
Dynasty Aerotech International Corp.	814	<u>8,028</u>	<u>8,028</u>
		<u>\$ 28,484</u>	<u>\$ 28,484</u>

(Continued)

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2018</u>			
Mandarin Airlines	2,075	\$ 22,821	\$ 22,821
Dynasty Aerotech International Corp.	814	<u>8,956</u>	<u>8,956</u>
		<u>\$ 31,777</u>	<u>\$ 31,777</u>
<u>March 31, 2018</u>			
Mandarin Airlines	2,075	\$ 22,406	\$ 22,406
Dynasty Aerotech International Corp.	814	<u>8,793</u>	<u>8,793</u>
		<u>\$ 31,199</u>	<u>\$ 31,199</u> (Concluded)

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

The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' 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.

27. NET INCOME

a. Revenue

	For the Three Months Ended March 31	
	2019	2018
Passenger	\$ 27,250,147	\$ 26,749,342
Cargo	10,161,698	10,181,655
Others	<u>2,993,503</u>	<u>2,804,030</u>
	<u>\$ 40,405,348</u>	<u>\$ 39,735,027</u>

Refer to Note 24 for the balance of contract liabilities related to customer contracts.

b. Other income

	For the Three Months Ended March 31	
	2019	2018
Interest income	\$ 96,955	\$ 59,616
Subsidy income	9,902	1,897
Others	<u>46,399</u>	<u>70,712</u>
	<u>\$ 153,256</u>	<u>\$ 132,225</u>

c. Other gains and losses

	For the Three Months Ended March 31	
	2019	2018
Gain (loss) on disposal of property, plant and equipment	\$ 1,349	\$ (278,321)
Gain (loss) on disposal of non-current assets held for sale	(10,462)	(124,290)
Net gain (loss) on financial assets classified as held for sale	11,140	2,866
Gain (loss) on disposal of investments	7,656	456,426
Gain (loss) on foreign exchange, net	(26,900)	19,591
Impairment loss recognized on property, plant and equipment and non-current assets held for sale	-	(50,000)
Others	<u>(49,224)</u>	<u>(84,974)</u>
	<u>\$ (66,441)</u>	<u>\$ (58,702)</u>

d. Finance costs

	For the Three Months Ended March 31	
	2019	2018
Interest expense		
Bonds payable	\$ 94,675	\$ 92,659
Bank loans	219,751	215,937
Interest on obligations under financial leases	-	6,956
Loss arising on derivatives designated as hedging instruments in cash flow hedge accounting reclassified from equity to profit or loss	<u>561,405</u>	<u>-</u>
	<u>\$ 875,831</u>	<u>\$ 315,552</u>
Capitalization interest	<u>\$ 1,071</u>	<u>\$ 18,771</u>
Capitalization rate	1.250% - 1.316%	1.1889% - 1.3117%

e. Depreciation and amortization expenses

	For the Three Months Ended March 31	
	2019	2018
Property, plant, equipment	\$ 5,299,843	\$ 4,789,799
Right of use assets	2,906,433	-
Investment properties	70	70
Intangible assets	<u>49,842</u>	<u>50,459</u>
Depreciation and amortization expenses	<u>\$ 8,256,188</u>	<u>\$ 4,840,328</u>
An analysis of depreciation by function		
Operating costs	\$ 7,751,905	\$ 4,567,419
Operating expenses	<u>454,441</u>	<u>222,450</u>
	<u>\$ 8,206,346</u>	<u>\$ 4,789,869</u>
An analysis of amortization by function		
Operating costs	\$ 3,166	\$ 1,151
Operating expenses	<u>46,676</u>	<u>49,308</u>
	<u>\$ 49,842</u>	<u>\$ 50,459</u>

f. Employment benefits expense

	For the Three Months Ended March 31	
	2019	2018
Post-employment benefits		
Defined contribution plan	\$ 140,839	\$ 129,598
Defined benefit plan	<u>352,595</u>	<u>366,644</u>
	<u>\$ 493,434</u>	<u>\$ 496,242</u>
Other employee benefits		
Salary expenses	\$ 5,273,602	\$ 5,125,202
Personnel service expenses	<u>1,719,330</u>	<u>1,534,641</u>
	<u>\$ 6,992,932</u>	<u>\$ 6,659,843</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 6,043,643	\$ 5,873,338
Operating expenses	<u>1,442,723</u>	<u>1,282,747</u>
	<u>\$ 7,486,366</u>	<u>\$ 7,156,085</u>

To be in compliance with the Company Act as amended, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the three months ended March 31, 2018, the employees' compensation was \$11,336 thousand of the base net profit. For the three months ended March 31, 2019, the Company has experienced a deficit, and therefore, no employees' compensation is estimated.

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

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

28. INCOME TAX

a. Income tax expense recognized in profit or loss

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

	For the Three Months Ended March 31	
	2019	2018
Current tax		
Current year	\$ 148,035	\$ 43,389
Adjustments for prior periods	-	2,725
Deferred tax		
Current year	41,202	927,061
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>(904,558)</u>
Income tax expense recognized in profit or loss	<u>\$ 189,237</u>	<u>\$ 68,617</u>

In February 2018, it was announced that the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate 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 Three Months Ended March 31	
	2019	2018
<u>Deferred tax</u>		
Recognized in other comprehensive income		
Translation of foreign operations	\$ (3,224)	\$ 7,755
Fair value changes of financial assets at FVTOCI	(3,424)	1,249
Hedging instruments' fair value revaluation	25,267	743
Effect of change in tax rate	<u>-</u>	<u>1,321</u>
Total income tax recognized in other comprehensive income	<u>\$ 18,619</u>	<u>\$ 11,068</u>

c. Income tax assessment

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

29. EARNING (LOSSES) PER SHARE

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

	For the Three Months Ended March 31	
	2019	2018
Basic earnings (losses) per share	<u>\$ (0.04)</u>	<u>\$ 0.02</u>
Diluted earnings (losses) per share	<u>\$ (0.04)</u>	<u>\$ 0.02</u>
Earnings (losses) used in the computation of diluted earnings (losses) per share	<u>\$ (243,704)</u>	<u>\$ 125,492</u>
Weighted average number of ordinary shares in computation of basic earnings (losses) per share	5,418,096	5,465,208
Effect of potentially dilutive ordinary shares:		
Employees' compensation or bonus issued to employees	<u>-</u>	<u>17,922</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (losses) per share	<u>5,418,096</u>	<u>5,483,130</u>

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

30. BUSINESS COMBINATIONS

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

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

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

- The Company acquired the control of Kaohsiung Catering (the date of acquisition), and the 35.78% equity held by the equity method was remeasured at the fair value of the acquisition date and the difference recognized in gain on disposal of investment is \$69,671 thousand.

- d. The non-controlling interest of Kaohsiung Catering (46.33% of equity) was valued \$565,888 thousand; at the fair value of the identifiable net assets attributed to the non-controlling interest on the date of acquisition.
- e. The bargain purchase benefit of \$26,615 thousand of Kaohsiung Catering (the date of acquisition) was measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
- f. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition date to March 31, 2018 included in the consolidated statements of comprehensive income were as follows:

	Kaohsiung Catering
Revenue	<u>\$ 174,199</u>
Profit	<u>\$ 21,668</u>

Had these business combinations been in effect at the beginning of the annual reporting period, the Group's revenue from continuing operations would have been \$40,062,522 thousand and the profit from continuing operations would have been \$229,469 thousand for the three months ended March 31, 2018. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

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

- a. Consideration received from disposals

Consideration received in cash and cash equivalents	<u>\$ 34,036</u>
---	------------------

- b. Analysis of assets and liabilities on the date control was lost

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

c. Gain on disposals of subsidiaries

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

d. Net cash inflow on disposal of subsidiaries

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

32. CAPITAL MANAGEMENT

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

33. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

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

	March 31, 2019		December 31, 2018		March 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>						
Bonds payable	\$ 28,493,068	\$ 28,556,362	\$ 32,919,610	\$ 31,651,865	\$ 28,339,581	\$ 28,478,640
Loans and debt	67,844,690	67,844,690	76,395,635	74,404,225	84,695,894	86,709,013

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of March 31, 2019, December 31, 2018 and March 31, 2018, the fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.666%, 0.680% and 0.713%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

b. Financial instruments evaluated at fair value - on a non-recurring basis

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).

March 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 238,600	\$ -	\$ -	\$ 238,600
Principal-protected notes				
Financial products	<u>-</u>	<u>7,216</u>	<u>-</u>	<u>7,216</u>
	<u>\$ 238,600</u>	<u>\$ 7,216</u>	<u>\$ -</u>	<u>\$ 245,816</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 21,527	\$ 21,527
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>128,788</u>	<u>128,788</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,315</u>	<u>\$ 150,315</u>
Financial assets for hedging	<u>\$ -</u>	<u>\$ 26,566</u>	<u>\$ 7,905</u>	<u>\$ 34,471</u>
Financial liabilities for hedging	<u>\$ -</u>	<u>\$ 40,581,107</u>	<u>\$ 983</u>	<u>\$ 40,582,090</u>

December 31, 2018

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

March 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 478,427	\$ -	\$ -	\$ 478,427
Principal-protected notes	-	1,072,237	-	1,072,237
Financial products	<u>-</u>	<u>92,850</u>	<u>-</u>	<u>92,850</u>
	<u>\$ 478,427</u>	<u>\$ 1,165,087</u>	<u>\$ -</u>	<u>\$ 1,643,514</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 25,743	\$ 25,743
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>107,548</u>	<u>107,548</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,291</u>	<u>\$ 133,291</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 10,797</u>	<u>\$ -</u>	<u>\$ 10,797</u>
Financial assets for hedging	<u>\$ -</u>	<u>\$ 368</u>	<u>\$ 2,001</u>	<u>\$ 2,369</u>
Financial liabilities for hedging	<u>\$ -</u>	<u>\$ 99,882</u>	<u>\$ -</u>	<u>\$ 99,882</u>

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

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

<u>Financial Instrument</u>	<u>Valuation Techniques and Inputs</u>
Derivative instruments - foreign exchange forward contracts and interest rate swaps/principal-protected notes/financial products	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

The fair values of 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 fuel options.

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

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

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

The movements of Level 3 financial instruments are as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1, 2019	\$ 4,901	\$ 132,191
Recognized in other comprehensive income	<u>2,021</u>	<u>18,124</u>
Balance at March 31, 2019	<u>\$ 6,922</u>	<u>\$ 150,315</u>
Balance at January 1, 2018	\$ -	\$ -
Adjustments on initial application of IFRS 9	-	40,637
Other comprehensive income recognized during the period	<u>2,001</u>	<u>1,454</u>
Balance at March 31, 2018	<u>\$ 2,001</u>	<u>\$ 42,091</u>

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

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

c. Categories of financial instruments

	March 31, 2019	December 31, 2018	March 31, 2018
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 245,816	\$ 206,001	\$ 1,643,514
Derivative financial assets for hedging	34,471	32,906	2,369
Financial assets at amortized cost (Note 1)	35,535,991	40,496,618	34,647,163
Financial assets at FVTOCI	150,315	132,191	133,291
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	-	221	10,797
Derivative financial liabilities for hedging	40,582,090	560	99,882
Financial liabilities at amortized cost (Note 2)	161,555,051	127,271,892	137,456,484

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

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

Note 3: The balances include the financial assets carried at cost.

Note 4: 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.

c. Financial risk management objectives and policies

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

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

1) Market risk

The Group is primarily exposed to the market risks of changes in foreign currency exchange rates, interest rates and fuel prices. The Group entered into derivative financial instruments to manage its exposure to those related risk.

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

a) Foreign currency risk

The Group engages in ticket sales and purchase transactions which denominated in foreign currency, which exposed to risks on change in exchange rates. The Group uses forward contracts to manage risk within the scope of the Group’s policy of management exchange rate risk.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

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

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be an increase in pre-tax profit for the three months ended March 31, 2019 of \$2,113,130 thousand and a decrease in pre-tax profit for the three months ended March 31, 2018 of \$7,658 thousand.

For the three months ended March 31, 2018

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

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

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

March 31, 2019

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge Aircraft rentals - forward exchange contracts	NTD/USD	NTD1,567,777/ USD50,796	2019.9.1- 2020.3.30	29.7-31.1	Financial assets for hedging/liabilities for hedging	\$ 26,566	\$ 22

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (i.e. aircraft rentals denominated in U.S. dollars and aircraft prepayments) are \$26,544 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	NTD2,265,231/ USD13,620	2019.1.7- 2019.12.26	28.3-30.9	Financial assets for hedging/liabilities for hedging	\$ 28,005	\$ 560

March 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD2,173,270/ USD74,367	2018.4.9- 2019.6.21	28.8-30	Financial assets for hedging-Current/liabilities for hedging-Non-current	\$ 360	\$ 66,345
					Financial assets for hedging-Current/liabilities for hedging-Non-current	-	5,121
Aircraft prepayments - forward exchange contracts	NTD/USD	NTD1,224,490/ USD42,000	2018.6.15- 2018.10.15	28.3-32	Financial assets for hedging/liabilities for hedging	8	28,416

For the three months ended March 31, 2019

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Comprehensive Income			
Cash flow hedge			
Aircraft rentals	\$ (902)	\$ 17,089	(Note)

Note: Decrease in operating costs or foreign exchange loss.

For the three months ended March 31, 2018

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Comprehensive Income			
Cash flow hedge			
Aircraft rentals	\$ (18,113)	\$ 21,502	(Note)
Aircraft prepayments	(36,561)	-	
	\$ (54,674)	\$ 21,502	

Note: Increase in operating costs

The amount of gains and losses on hedging instruments for the three months ended March 31, 2018 reclassified from profit or loss to prepayments for equipment was \$44,155 thousand.

b) Interest rate risk

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

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

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

	March 31, 2019	December 31, 2018	March 31, 2018
Fair value interest rate risk			
Financial liabilities	\$ 29,313,068	\$ 34,919,610	\$ 30,389,581
Cash flow interest rate risk			
Financial liabilities	95,126,103	75,031,978	84,720,218

Sensitivity analysis

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

Had interest rates increased one yard (25 basis) points and had all other variables been held constant, the Group's pretax profit for the three months ended March 31, 2019 would have decreased by \$59,454 thousand.

Had interest rates increased one yard (25 basis) points and had all other variables been held constant, the Group's pretax profit for the three months ended March 31, 2018 would have decreased by \$52,950 thousand.

c) Other price risk

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

March 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	NTD6,922	2019.4.30-2019.12.31	USD55.00-78.45	Financial assets for hedging	\$ 7,905	\$ 983

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$6,922 thousand.

December 31, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NTD4,901	2019.1.31-2019.12.31	USD72-88	Financial assets for hedging	\$ 4,901	\$ -

March 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	NTD2,001	2018.4.30-2018.6.30	USD79.95-84.2	Financial assets for hedging	\$ 2,001	\$ -

For the three months ended March 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	\$ 2,021	\$ (927) (Note)

Note : Increase in operating costs.

For the three months ended March 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	\$ 2,001	\$ -

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 Three Months Ended March 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 5%	\$ -	\$ 656	\$ 8,999	\$ 6,997
Fuel price decrease 5%	-	-	-	(2,001)

2) Credit risk

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

3) Liquidity risk

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

Liquidity and interest risk rate table

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

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

March 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	2.7075	\$ 5,327,595	\$ 20,619,240	\$ 13,959,968
Floating interest rate liabilities	1.1894	8,153,919	40,524,247	18,634,643
Fixed interest rate liabilities	-	6,038,467	34,543,623	-
Derivative instruments	1.0700	<u>2,827,846</u>	<u>25,561,468</u>	<u>1,010,700</u>
Bonds payable		<u>\$ 22,347,827</u>	<u>\$ 121,248,578</u>	<u>\$ 33,605,311</u>

December 31, 2018

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

March 31, 2018

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	1.1010	\$ 1,476,920	\$ 557,541	\$ -
Floating interest rate liabilities	1.1425	21,535,121	44,134,235	17,502,669
Fixed interest rate liabilities	1.1800	2,005,900	-	-
Derivative instruments	-	85,134	5,121	-
Bonds payable	1.3907	<u>4,515,960</u>	<u>21,677,898</u>	<u>1,013,907</u>
		<u>\$ 29,619,035</u>	<u>\$ 66,374,795</u>	<u>\$ 18,516,576</u>

34. RELATED-PARTY TRANSACTIONS

The transactions between subsidiaries (obtain business) relationship with China Airlines, Ltd., remaining account balance, revenue and expense are eliminated when combined, which is not disclosed in the note. Unless otherwise stated, the transactions between the merged company and other business related parties are as follows:

a. The related parties' names and relationships

<u>Name</u>	<u>Relationship with the Company</u>
Kaohsiung Catering Services	Associate (become subsidiary in March 2018)
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate (disposal in January 2018)
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
Nordam Asia Ltd.	Joint venture investment
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relative

b. Operating income

<u>Account Items</u>	<u>Related Party Type</u>	<u>For the Three Months Ended March 31</u>	
		<u>2019</u>	<u>2018</u>
Other income	Major shareholders of the Company	\$ <u>5,125</u>	\$ <u>10,587</u>
	Associates	\$ <u>26</u>	\$ <u>66</u>
	Joint venture investments	\$ <u>10,645</u>	\$ <u>10,745</u>

c. Purchases

Related Party Type	For the Three Months Ended March 31	
	2019	2018
Major shareholders of the Company	\$ 11,324	\$ 23,865
Associates	\$ 107,241	\$ 172,100
Joint venture investments	\$ 457,683	\$ 483,688

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

Related Party Type	March 31, 2019	December 31, 2018	March 31, 2018
Major shareholders of the Company	\$ 2,523	\$ 1,454	\$ 4,943
Joint venture investments	7,499	7,589	5,985
	<u>\$ 10,022</u>	<u>\$ 9,043</u>	<u>\$ 10,928</u>

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

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

Related Party Type	March 31, 2019	December 31, 2018	March 31, 2018
Major shareholders of the Company	\$ 5,273	\$ 3,368	\$ 10,799
Associates	51,231	54,948	32,471
Joint venture investments	465,702	474,499	488,358
	<u>\$ 522,206</u>	<u>\$ 532,815</u>	<u>\$ 531,628</u>

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

f. Leases (operating leases)

The Company has signed a lease contract with the China Aviation Industry Development Foundation for pilot trainings. The Company has leased the flight trainer and simulator, and the rental was calculated based on use hours. As of March 31, 2019 and 2018, the rental paid was \$54,831 thousand and \$23,865 thousand, respectively.

g. Endorsements and assurances

	March 31, 2019		December 31, 2018		March 31, 2018	
	Total Amount	Amount Used	Total Amount	Amount Used	Total Amount	Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 2,256,700	\$ 3,850,000	\$ 2,339,700	\$ 3,850,000	\$ 2,767,000
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	-	1,080,000	277,905
Cal Hotel Co., Ltd.						
Taigerair Taiwan Co., Ltd.	1,084,500	419,782	1,081,792	418,491	1,035,754	396,529
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	2,000,000	834,477	2,000,000	605,547	2,000,000	-

h. Compensation of key management personnel

	For the Three Months Ended March 31	
	2019	2018
Short-term employee benefits	\$ 13,619	\$ 14,769
Post-employment benefits	<u>875</u>	<u>930</u>
	<u>\$ 14,494</u>	<u>\$ 15,699</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

35. PLEDGED ASSETS

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

	March 31, 2019	December 31, 2018	March 31, 2018
Property, plant and equipment	\$ 41,278,074	\$ 42,066,242	\$ 43,010,959
	75,696,713	-	-
Restricted assets	<u>119,366</u>	<u>118,764</u>	<u>257,948</u>
	<u>\$ 117,094,153</u>	<u>\$ 42,185,006</u>	<u>\$ 43,268,907</u>

The above restricted assets included pledged time deposits and demand deposits restricted due to loan agreements.

36. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2018, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

- a. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircraft, and the total list price of the six aircraft was \$120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, as of December 31, 2018, two of the aircraft has been handed over to the Company, and the total list price of the lefts four aircraft was \$80,000 thousand, which has been paid in the amount of US\$12,269 thousand (recognized as prepayments for aircraft).
- b. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

However, TACT filed an arbitration for the total amount of expenditure in 2012 to revise the total amount to \$6,840,000 thousand.

As of March 31, 2018, TACT had signed the following construction contracts with unrelated parties:

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

As of March 31, 2019, the cumulated consultant service expense and construction equipment had amounted to \$481,776 thousand (VAT included) and \$5,151,147 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$468,755 thousand (VAT included) and \$5,151,086 thousand (VAT included) were reclassified to property, plant and equipment. The remaining cumulative payments were recognized under construction in progress.

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

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

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

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

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

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

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

- d. Taiwan Aircraft Maintenance Company contracted out Ronggong Engineering Co., Ltd. for a construction repair project. The contract expiration date is March 5, 2019, and the estimated total cost of the project is \$1.964 billion. As of March 31, 2019, \$1,687,731 thousand was paid (recognized as construction in progress).
- e. The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike on February 8, 2019, and the flights resumed normal operation on February 14, 2019. A total of 214 flights was cancelled and the accumulated revenue loss was about \$500 million. The initial estimated compensation for customer losses and other expenditures were about \$154 million (recognized as operating cost).

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

(Foreign Currencies in Thousands)

March 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 416,293	30.8642	\$ 12,848,551
EUR	16,831	34.6021	582,381
HKD	184,193	3.9262	723,180
JPY	6,030,887	0.2782	1,677,845
CNY	332,627	4.5830	1,524,426
<u>Financial liabilities</u>			
Monetary items			
USD	2,537,423	30.8642	78,315,522
EUR	7,064	34.6021	244,442
HKD	86,847	3.9262	340,979
JPY	6,440,161	0.2782	1,791,687
CNY	159,584	4.5830	731,371

December 31, 2018

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

March 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 398,412	29.1545	\$ 11,615,502
EUR	20,462	35.8423	733,422
HKD	176,329	3.7092	654,041
JPY	7,262,918	0.2741	1,990,795
CNY	517,755	4.6425	2,403,679
<u>Financial liabilities</u>			
Monetary items			
USD	411,070	29.1545	11,984,544
EUR	5,817	35.8423	208,494
HKD	94,253	3.7092	349,602
JPY	5,370,355	0.2741	1,472,026
CNY	169,508	4.6425	786,940

For the three months ended March 31, 2019 and 2018, net foreign exchange gains (losses) were \$(26,900) thousand and \$19,591 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

38. ADDITIONAL DISCLOSURES

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

39. SEGMENT INFORMATION

Segment Information

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

For the three months ended March 31, 2019 and 2018, financial information of segments is listed below:

	For the Three Months Ended March 31, 2019			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 39,635,656</u>	<u>\$ 2,640,801</u>	<u>\$ (1,871,109)</u>	<u>\$ 40,405,348</u>
Operation profit and loss	<u>\$ 493,631</u>	<u>\$ 299,182</u>	<u>\$ (31,340)</u>	\$ 761,473
Interest revenue				96,955
Investment income accounted for using the equity method				69,904
Revenue				55,366
Financial costs				(875,831)
Expenses				<u>(65,506)</u>
Gain before income tax				<u>\$ 42,361</u>
Identifiable assets	<u>\$ 151,022,614</u>	<u>\$ 11,157,966</u>	<u>\$ -</u>	\$ 162,180,580
Investments accounted for using the equity method				2,297,133
Assets				<u>131,141,985</u>
Total assets				<u>\$ 295,619,698</u>
	For the Three Months Ended March 31, 2018			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 39,085,225</u>	<u>\$ 2,226,413</u>	<u>\$ (1,576,611)</u>	<u>\$ 39,735,027</u>
Operation profit and loss	<u>\$ 189,274</u>	<u>\$ 231,651</u>	<u>\$ -</u>	\$ 420,925
Interest revenue				59,616
Investment income accounted for using the equity method				81,715
Revenue				130,442
Financial costs				(315,552)
Expenses				<u>(116,535)</u>
Gain before income tax				<u>\$ 260,611</u>
Identifiable assets	<u>\$ 152,037,256</u>	<u>\$ 10,579,420</u>	<u>\$ -</u>	\$ 162,616,676
Investments accounted for using the equity method				2,279,493
Assets				<u>63,786,207</u>
Total assets				<u>\$ 228,682,376</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	\$ 11,355,538	\$ 3,850,000	\$ 3,850,000	\$ 2,256,700	\$ -	6.78	\$ 28,388,844	Yes	No	No
		Taiwan Air Cargo Terminal	54% subsidiary	11,355,538	1,080,000	1,080,000	-	-	1.90	28,388,844	Yes	No	No
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,355,538	1,084,500	1,084,500	419,782	-	1.91	28,388,844	Yes	No	No
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,355,538	2,000,000	2,000,000	834,477	-	3.52	28,388,844	Yes	No	No

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

MARCH 31, 2019

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

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2019				Note
				Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines (the "Company")	<u>Shares</u> Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at fair value through other comprehensive income - non-current	1,359,368	\$ 57,583	13.59	\$ 63,341	Note 1
	Everest Investment Holdings Ltd. - preferred shares	-	Financial assets at fair value through other comprehensive income - non-current	135,937	5,758	-	-	
	Chung Hua Express Co.	-	Financial assets at fair value through other comprehensive income - non-current	1,100,000	21,527	11.00	21,527	
	Jardine Air Terminal Services	-	Financial assets at fair value through profit or loss - current	12,000,000	-	15.00	-	
	The Grand Hi Lai Hotel	-	Financial assets at fair value through profit or loss - current	4,021	-	0.02	-	
Mandarin Airlines	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - non-current	2,074,628	20,456	-	20,456	-
Cal-Asia Investment	<u>Shares</u> Taikoo (Xiamen) Landing Gear Services	-	Financial assets at fair value through profit or loss - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at fair value through other comprehensive income - non-current	-	65,447	5.45	65,447	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficial certificates</u> Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,910,768	61,087	-	61,087	-
Taiwan Airport Services	<u>Shares</u> TransAsia Airways	-	Financial assets at fair value through profit or loss - current	2,277,786	-	0.40	-	-
	<u>Beneficial certificates</u> Fuh Hwa Global Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	787,007	9,293	-	9,293	-
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	730,495	8,101	-	8,101	-
Dynasty Aerotech International Corp.	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - non-current	814,152	8,028	-	8,028	-
	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,728	-	4,728	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2019				Note
				Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Kaohsiung Catering Services	<u>Beneficial certificates</u>	-	Financial assets at fair value through profit or loss - current	5,407,832	\$ 85,390	-	\$ 85,390	-
	Prudential Financial Money Market Fund Prudential Financial Return Fund		Financial assets at fair value through profit or loss - current	4,493,628	70,000	-	70,000	-

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

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 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	\$ 118,419	0.37	30 days	\$ -	-	\$ (20,755)	(0.79)	-
	Taiwan Airport Services	Subsidiary	Purchase	107,880	0.33	40 days	-	-	(72,809)	(2.76)	-
	Mandarin Airlines	Subsidiary	Sale	(547,138)	(1.56)	2 months	-	-	410,486	4.43	-
	Taoyuan International Airport Service	Subsidiary	Purchase	288,384	0.89	40 days	-	-	(356,826)	(13.54)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	138,729	0.43	60 days	-	-	(86,998)	(3.30)	-
	China Pacific Catering Services	Equity-method investee	Purchase	429,927	1.33	90 days	-	-	(446,655)	(16.95)	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

MARCH 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	\$ 410,486	Note	\$ -	-	\$ 410,486	\$ -
Mandarin Airlines	China Airlines	Parent company	263,105	Note	-	-	260,629	-
China Pacific Catering Services	China Airlines	Parent company	446,655	3.81	-	-	159,398	-
Taoyuan International Airport Service	China Airlines	Parent company	356,826	3.20	-	-	194,774	-

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(In Thousands of New Taiwan Dollars/U.S. Dollars/Hong Kong Dollars/Japanese Yen)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2019			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				March 31, 2019	December 31, 2018	Number of Shares	Percentage of Ownership	Carrying Amount			
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	\$ 1,500,000	\$ 1,500,000	150,000,000	100.00	\$ 1,517,000	\$ (2,273)	\$ 9,556	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,208,941	7,983	7,515	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	1,560,303	50,106	27,058	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US\$ 26,145	US\$ 26,145	2,614,500	100.00	1,280,178	9,318	9,318	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	858,272	104,147	53,115	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	776,642	42,905	21,024	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	527,888	6,920	6,920	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	495,372	43,887	41,223	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	499,664	9,248	1,850	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	289,722	41,306	19,558	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	696,831	70,189	34,013	Note 5
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	453,538	1,369	(7,701)	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	169,617	4,938	2,716	-
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	90,076	978	974	Notes 1 and 4
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	26,663	(293)	(283)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	10,036	(971)	(499)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,353	1,429	357	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	2,077,505	299,166	269,250	Note 4
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	1,090,486	(37,652)	(37,652)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Composite repair and manufacturing business	2,450	2,450	245,000	49.00	2,358	-	-	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	230,834	299,166	29,917	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,590	41,306	446	-
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	46,873	4,735	1,657	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	402,998	5,142	5,142	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,870	-	-	-

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

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

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

Note 4: Investee acquired by merger.

Note 5: Difference cause by acquisition.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(In Thousands of New Taiwan Dollars/Renminbi/U.S. Dollars)

China Airlines

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of March 31, 2019	Accumulated Inward Remittance of Earnings as of March 31, 2019
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,166,269 (RMB 254,480)	Indirect (Note 1)	\$ 129,197 (US\$ 4,186)	\$ -	\$ -	\$ 129,197 (US\$ 4,186)	\$ 15,227 (RMB 3,344)	14.00	\$ 2,008 (RMB 468)	\$ 229,308 (RMB 50,035)	\$ 86,474 (US\$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 1)	60,106 (US\$ 1,947)	-	-	60,106 (US\$ 1,947)	23,561 (RMB 5,175)	14.00	3,130 (RMB 724)	122,592 (RMB 26,750)	27,016 (US\$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,564,506 (US\$ 83,090)	Indirect (Note 1)	66,395 (US\$ 2,151)	-	-	66,395 (US\$ 2,151)	-	2.589	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	359,969 (US\$ 11,663)	Indirect (Note 1)	19,630 (US\$ 636)	-	-	19,630 (US\$ 636)	-	5.45	-	65,447 (RMB 14,281)	-

Accumulated Investment in Mainland China as of March 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$275,328 (US\$8,920)	\$667,900 (Note 3)	\$35,891,508 (Note 4)

(Continued)

Taiwan Airport Services

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of March 31, 2019	Accumulated Repatriation of Investment Income as of March 31, 2019
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,166,269 (RMB 254,480)	Indirect (Note 5)	\$ 124,023 (US\$ 4,018)	\$ -	\$ -	\$ 124,023 (US\$ 4,018)	\$ 15,227 (RMB 3,344)	14	\$ 2,132 (RMB 468)	\$ 227,899 (RMB 49,728)	\$ 117,479 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 5)	59,468 (US\$ 1,927)	-	-	59,468 (US\$ 1,927)	23,561 (RMB 5,175)	14	3,299 (RMB 724)	122,644 (RMB 26,761)	43,414 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of March 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$183,491 (US\$5,945)	\$183,491 (US\$5,945)	\$367,124 (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: As of March 31, 2019, the inward remittance of earnings amounted to US\$2,801,749 and US\$875,330.

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

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

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(In Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			% of Total Consolidated Total Revenue or Assets
				Financial Statement Account	Amount	Transaction Criteria	
0	China Airlines, Ltd.	Mandarin Airlines	a	Passenger revenue	\$ 476,708	The same as ordinary transactions	1.18
		Taoyuan International Airport Service	a	Terminal and landing fees	288,384	The same as ordinary transactions	0.71
		Taiwan Airport Services	a	Terminal and landing fees	107,880	The same as ordinary transactions	0.27
		Taiwan Air Cargo Terminal	a	Other operating costs	118,419	The same as ordinary transactions	0.29
		Mandarin Airlines	a	Accounts receivable - related parties	410,486	The same as ordinary transactions	0.14
		Mandarin Airlines	a	Accounts payable - related parties	263,105	The same as ordinary transactions	0.09
		Taoyuan International Airport Service	a	Accounts payable - related parties	356,826	The same as ordinary transactions	0.12
		Mandarin Airlines	a	Bonds payable - non-current	250,000	The same as ordinary transactions	0.08
		Kaohsiung Catering Services	a	Passenger service cost	138,729	The same as ordinary transactions	0.34
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	118,419	The same as ordinary transactions	0.29
2	Mandarin Airlines	China Airlines, Ltd.	b	Flight operation costs	476,708	The same as ordinary transactions	1.18
		China Airlines, Ltd.	b	Accounts receivable - related parties	263,105	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Financial assets at amortized cost	250,000	The same as ordinary transactions	0.08
		China Airlines, Ltd.	b	Notes and accounts payable - related parties	410,486	The same as ordinary transactions	0.14
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	288,384	The same as ordinary transactions	0.71
		China Airlines, Ltd.	b	Accounts receivable - related parties	356,826	The same as ordinary transactions	0.12
4	Taiwan Airport Services	China Airlines, Ltd.	b	Operating revenue	107,880	The same as ordinary transactions	0.27
5	Kaohsiung Catering Services	China Airlines, Ltd.	b	Operating revenue	138,729	The same as ordinary transactions	0.34
6	CAL Park	Cal Hotel Co., Ltd.	c	Operating revenue	114,281	The same as ordinary transactions	0.28
7	Cal Hotel Co., Ltd.	CAL Park	c	Other operating expense	114,281	The same as ordinary transactions	0.28

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

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

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

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