

# **China Airlines, Ltd. and Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2018 and 2017 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 September 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three-month periods ended September 30, 2018 and 2017 and for the nine-month periods ended September 30, 2018 and 2017, the consolidated statements of changes in equity and cash flows for the nine-month periods then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

We did not review the financial statements of some subsidiaries included in the consolidated financial statements of the Group, but such statements were reviewed by other auditors. Our conclusion, insofar as it relates to the amounts included in the consolidated financial statements for these subsidiaries, is based solely on the report of other auditors. The total assets of these subsidiaries were NT\$5,508,205 thousand, which constituted 2.44% of the consolidated total assets as of September 30, 2018, and the total revenue was NT\$6,800,331 thousand, which constituted 5.39% of the consolidated total revenues for the nine-month period ended September 30, 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 14 and 15 to the consolidated financial statements, the financial statements of some non-significant subsidiaries included in the consolidated financial statements (other than those mentioned in the second paragraph) and some investments accounted for using the equity method were not reviewed. As of September 30, 2018 and 2017, the combined total assets of these non-significant subsidiaries were NT\$17,465,404 thousand and NT\$15,206,985 thousand, respectively, representing 7.73% and 6.81%, respectively, of the consolidated total assets, and

combined total liabilities of these non-significant subsidiaries were NT\$6,761,671 thousand and NT\$6,130,646 thousand, respectively, representing 4.08% and 3.73%, respectively, of the consolidated total liabilities; for the three-month periods ended September 30, 2018 and 2017 and for the nine-month periods ended September 30, 2018 and 2017, the amounts of the combined comprehensive income of these non-significant subsidiaries were NT\$333,270 thousand, NT\$239,617 thousand, NT\$881,191 thousand and NT\$631,803 thousand, respectively, representing 27.54%, 7.78%, 50.67% and 61.56%, respectively, of the consolidated total comprehensive income. As of September 30, 2018 and 2017, the aforementioned investments accounted for using the equity method were NT\$2,215,025 thousand and NT\$2,678,739 thousand, respectively; and for the three-month periods and nine months ended September 30, 2018 and 2017, the Group's share of the profit of such investments accounted for using the equity method were NT\$81,098 thousand, NT\$130,154 thousand, NT\$244,917 thousand and NT\$385,762 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 September 30, 2018 and 2017, its consolidated financial performance for the three-month periods ended September 30, 2018 and 2017 and for the nine-month periods ended September 30, 2018 and 2017, and its consolidated cash flows for the nine-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 Chen-Hsin Yang and Li-Chi Chen.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

November 8, 2018

#### 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	September 30, 2018 (Reviewed)		December 31, 2017 (Audited)		September 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Notes 4, 6, 19 and 33)	\$ 23,227,915	10	\$ 22,585,332	10	\$ 25,848,493	12
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 33)	216,967	-	306,839	-	279,822	-
Derivative financial assets for hedging - current (Notes 4 and 33)	-	-	293	-	18,880	-
Financial assets at amortized cost (Note 9)	1,213,420	1	-	-	-	-
Financial assets for hedging - current (Notes 4 and 33)	73,283	-	-	-	-	-
Notes and accounts receivable, net (Notes 4, 5, 11 and 33)	9,816,550	4	8,604,265	4	8,297,352	4
Notes and accounts receivable - related parties (Notes 33 and 34)	7,254	-	8,359	-	8,920	-
Other receivables (Note 33)	851,520	-	714,413	-	468,504	-
Current tax assets (Notes 4 and 29)	55,639	-	32,487	-	48,934	-
Inventories, net (Notes 4 and 12)	8,692,990	4	8,731,755	4	8,662,991	4
Noncurrent assets held for sale (Notes 4, 5 and 13)	110,778	-	426,553	-	494,686	-
Other assets - current (Notes 6 and 19)	4,249,637	2	6,001,538	3	3,282,388	1
Total current assets	<u>48,515,953</u>	<u>21</u>	<u>47,411,834</u>	<u>21</u>	<u>47,410,970</u>	<u>21</u>
<b>NONCURRENT ASSETS</b>						
Financial assets at fair value through other comprehensive income - noncurrent (Note 8)	141,155	-	-	-	-	-
Derivative financial assets for hedging - noncurrent (Notes 4 and 33)	-	-	-	-	65	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 10 and 33)	-	-	84,075	-	83,885	-
Investments accounted for using the equity method (Notes 4 and 15)	2,215,025	1	2,507,346	1	2,678,739	1
Property, plant and equipment (Notes 4, 5, 16 and 35)	160,485,264	71	153,617,531	68	146,904,608	66
Investment properties (Notes 4 and 17)	2,075,414	1	2,075,624	1	2,075,693	1
Other intangible assets (Notes 4 and 18)	1,205,427	1	1,019,345	1	1,025,808	-
Deferred income tax asset (Notes 4, 5 and 29)	5,076,766	2	5,519,332	2	5,550,436	3
Other assets - noncurrent (Notes 19, 22, 33, 35 and 36)	6,357,696	3	13,664,545	6	17,544,598	8
Total noncurrent assets	<u>177,556,747</u>	<u>79</u>	<u>178,487,798</u>	<u>79</u>	<u>175,863,832</u>	<u>79</u>
<b>TOTAL</b>	<u>\$ 226,072,700</u>	<u>100</u>	<u>\$ 225,899,632</u>	<u>100</u>	<u>\$ 223,274,802</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term loans (Note 20)	\$ -	-	\$ 120,000	-	\$ 33,030	-
Short-term bills payable (Note 20)	-	-	-	-	10,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 33)	1,063	-	8,655	-	13,360	-
Derivative financial liabilities for hedging - current (Notes 4 and 33)	-	-	82,295	-	46,558	-
Financial liabilities for hedging - current (Notes 4 and 33)	4,700	-	-	-	-	-
Notes and accounts payable (Note 33)	1,260,116	-	483,884	-	638,453	-
Contract liabilities - current (Notes 4, 5 and 24)	17,461,822	8	-	-	-	-
Notes and accounts payable - related parties (Notes 33 and 34)	538,320	-	590,806	-	691,440	-
Other payables (Notes 23 and 33)	13,594,067	6	13,033,069	6	11,408,984	5
Current tax liabilities (Notes 4 and 29)	126,389	-	28,722	-	79,082	-
Provisions - current (Notes 4, 5, 25 and 33)	511,301	-	475,725	-	64,945	-
Deferred revenue - current (Notes 4, 5 and 24)	-	-	16,375,789	7	15,371,818	7
Bonds payable and put options of convertible bonds - current portion (Notes 4, 21, 27 and 33)	4,439,988	2	4,367,100	2	2,700,000	1
Loans and debts - current portion (Notes 20, 33 and 35)	19,735,094	9	19,304,674	9	27,740,345	13
Capital lease obligations - current portion (Notes 4, 22, 33 and 35)	707,333	-	1,617,321	1	1,755,615	1
Other current liabilities (Note 33)	4,133,866	2	3,801,073	2	3,714,231	2
Total current liabilities	<u>62,514,059</u>	<u>27</u>	<u>60,289,113</u>	<u>27</u>	<u>64,267,861</u>	<u>29</u>
<b>NONCURRENT LIABILITIES</b>						
Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 33)	-	-	926	-	2,634	-
Derivative financial liabilities for hedging - noncurrent (Notes 4 and 33)	-	-	6,994	-	4,957	-
Bonds payable - noncurrent (Notes 4, 21, 27 and 33)	23,953,991	11	21,050,000	9	19,209,457	9
Loans and debts - noncurrent (Notes 20, 33 and 35)	60,101,196	27	65,753,503	29	62,088,579	28
Contract liabilities - noncurrent (Notes 4, 5 and 24)	1,834,709	1	-	-	-	-
Provisions - noncurrent (Notes 4, 5, 25 and 33)	8,430,469	4	8,013,583	4	8,559,375	4
Deferred tax liabilities (Notes 4 and 29)	187,003	-	190,682	-	194,929	-
Capital lease obligations - noncurrent (Notes 4, 22, 33 and 35)	12,265	-	636,222	-	725,832	-
Deferred revenue - noncurrent (Notes 4, 5 and 24)	-	-	1,818,265	1	1,801,082	1
Accrued pension costs (Notes 4, 5 and 26)	7,940,784	3	8,101,565	4	7,164,649	3
Other noncurrent liabilities (Note 33)	770,713	-	881,260	-	449,216	-
Total noncurrent liabilities	<u>103,231,130</u>	<u>46</u>	<u>106,453,000</u>	<u>47</u>	<u>100,200,710</u>	<u>45</u>
Total liabilities	<u>165,745,189</u>	<u>73</u>	<u>166,742,113</u>	<u>74</u>	<u>164,468,571</u>	<u>74</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)</b>						
Share capital	54,709,846	24	54,709,846	24	54,709,846	24
Capital surplus	1,209,977	1	799,999	-	799,999	-
Retained earnings						
Legal reserve	351,923	-	206,092	-	206,092	-
Special reserve	118,810	-	-	-	-	-
Unappropriated retained earnings	1,269,502	1	1,458,313	1	950,198	1
Total retained earnings	1,740,235	1	1,664,405	1	1,156,290	1
Other equity	84,257	-	(107,641)	-	(46,547)	-
Treasury shares	(301,354)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	<u>57,442,961</u>	<u>26</u>	<u>57,023,237</u>	<u>25</u>	<u>56,576,216</u>	<u>25</u>
<b>NON-CONTROLLING INTERESTS (Note 27)</b>	<u>2,884,550</u>	<u>1</u>	<u>2,134,282</u>	<u>1</u>	<u>2,230,015</u>	<u>1</u>
Total equity	<u>60,327,511</u>	<u>27</u>	<u>59,157,519</u>	<u>26</u>	<u>58,806,231</u>	<u>26</u>
<b>TOTAL</b>	<u>\$ 226,072,700</u>	<u>100</u>	<u>\$ 225,899,632</u>	<u>100</u>	<u>\$ 223,274,802</u>	<u>100</u>

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

(With Deloitte & Touche auditors' review report dated November 8, 2018)

## 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 September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUE (Notes 4, 28 and 34)	\$ 45,196,764	100	\$ 40,542,703	100	\$ 126,207,626	100	\$ 114,495,782	100
COSTS (Notes 4, 9, 12, 18, 25, 26, 28 and 34)	<u>39,886,608</u>	<u>88</u>	<u>33,474,463</u>	<u>83</u>	<u>113,144,293</u>	<u>89</u>	<u>98,605,365</u>	<u>86</u>
GROSS PROFIT	5,310,156	12	7,068,240	17	13,063,333	11	15,890,417	14
OPERATING EXPENSES (Notes 4, 26 and 28)	<u>3,414,923</u>	<u>8</u>	<u>3,366,153</u>	<u>8</u>	<u>9,970,057</u>	<u>8</u>	<u>9,755,078</u>	<u>9</u>
OPERATING PROFIT	<u>1,895,233</u>	<u>4</u>	<u>3,702,087</u>	<u>9</u>	<u>3,093,276</u>	<u>3</u>	<u>6,135,339</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES								
Other income (Notes 8 and 28)	148,500	1	131,867	1	437,024	-	435,203	1
Other gains and losses (Notes 10, 13, 15, 16, 28 and 31)	(115,677)	-	51,590	-	(473,347)	-	(3,944,936)	(3)
Finance costs (Notes 9, 28 and 33)	(349,414)	(1)	(345,594)	(1)	(1,015,475)	(1)	(1,013,780)	(1)
Share of the profit of associates and joint ventures (Note 15)	<u>81,098</u>	<u>-</u>	<u>130,154</u>	<u>-</u>	<u>244,917</u>	<u>-</u>	<u>385,762</u>	<u>-</u>
Total non-operating income and expenses	<u>(235,493)</u>	<u>-</u>	<u>(31,983)</u>	<u>-</u>	<u>(806,881)</u>	<u>(1)</u>	<u>(4,137,751)</u>	<u>(3)</u>
PROFIT BEFORE INCOME TAX	1,659,740	4	3,670,104	9	2,286,395	2	1,997,588	2
INCOME TAX EXPENSE (Notes 4, 5 and 29)	<u>433,103</u>	<u>1</u>	<u>619,282</u>	<u>1</u>	<u>657,000</u>	<u>1</u>	<u>808,389</u>	<u>1</u>
NET INCOME FOR THE PERIOD	<u>1,226,637</u>	<u>3</u>	<u>3,050,822</u>	<u>8</u>	<u>1,629,395</u>	<u>1</u>	<u>1,189,199</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified subsequently to profit or loss								
Gain on hedging instruments subject to basis adjustment (Notes 4, 27 and 33)	4,265	-	-	-	21,761	-	-	-
Unrealized (loss) gain on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 27)	(7,603)	-	-	-	10,835	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 29)	<u>235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,050)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(3,103)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,546</u>	<u>-</u>	<u>-</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 September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations (Notes 4 and 27)	\$ (23,546)	-	\$ 3,491	-	\$ 10,079	-	\$ (124,213)	-
Cash flow hedges (Notes 4 and 27)	-	-	29,766	-	-	-	(71,854)	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 27 and 33)	11,004	-	-	-	98,702	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	(880)	-	(5,706)	-	(17,678)	-	33,196	-
Other comprehensive income (loss) for the period, net of income tax	(16,525)	-	27,551	-	109,649	-	(162,871)	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ 1,210,112</u>	<u>3</u>	<u>\$ 3,078,373</u>	<u>8</u>	<u>\$ 1,739,044</u>	<u>1</u>	<u>\$ 1,026,328</u>	<u>1</u>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>								
Owners of the Company	\$ 1,080,506	3	\$ 2,951,880	8	\$ 1,269,440	1	\$ 952,467	1
Non-controlling interests	146,131	-	98,942	-	359,955	-	236,732	-
	<u>\$ 1,226,637</u>	<u>3</u>	<u>\$ 3,050,822</u>	<u>8</u>	<u>\$ 1,629,395</u>	<u>1</u>	<u>\$ 1,189,199</u>	<u>1</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>								
Owners of the Company	\$ 1,070,299	3	\$ 2,978,279	8	\$ 1,383,645	1	\$ 793,656	1
Non-controlling interests	139,813	-	100,094	-	355,399	-	232,672	-
	<u>\$ 1,210,112</u>	<u>3</u>	<u>\$ 3,078,373</u>	<u>8</u>	<u>\$ 1,739,044</u>	<u>1</u>	<u>\$ 1,026,328</u>	<u>1</u>
<b>EARNINGS (LOSSES) PER SHARE (NEW TAIWAN DOLLARS; Note 30)</b>								
Basic	<u>\$ 0.20</u>		<u>\$ 0.54</u>		<u>\$ 0.23</u>		<u>\$ 0.17</u>	
Diluted	<u>\$ 0.18</u>		<u>\$ 0.53</u>		<u>\$ 0.22</u>		<u>\$ 0.17</u>	

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

(With Deloitte & Touche auditors' review report dated November 8, 2018)

(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					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	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares				
BALANCE AT JANUARY 1, 2017	\$ 54,708,901	\$ 799,932	\$ 287,224	\$ 76,486	\$ (157,618)	\$ 78,564	\$ 1,714	\$ -	\$ 31,986	\$ -	\$ (43,372)	\$ 55,783,817	\$ 2,083,381	\$ 57,867,198	
Convertible bonds converted to ordinary shares	945	131	-	-	-	-	-	-	-	-	-	1,076	-	1,076	
Disposal of capital surplus of investments in associates accounted for by using the equity method	-	(64)	-	-	-	-	-	-	-	-	-	(64)	-	(64)	
Compensation of deficits for 2016	-	-	(81,132)	(76,486)	157,618	-	-	-	-	-	-	-	-	-	
Difference between cost and net value from acquiring subsidiaries	-	-	-	-	(2,269)	-	-	-	-	-	-	(2,269)	(46,118)	(48,387)	
Net profit for the nine months ended September 30, 2017	-	-	-	-	952,467	-	-	-	-	-	-	952,467	236,732	1,189,199	
Other comprehensive loss for the nine months ended September 30, net of income tax	-	-	-	-	-	(99,208)	-	-	(59,603)	-	-	(158,811)	(4,060)	(162,871)	
Total comprehensive income (loss) for the nine months ended September 30, 2017	-	-	-	-	952,467	(99,208)	-	-	(59,603)	-	-	793,656	232,672	1,026,328	
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(39,920)	(39,920)	
BALANCE AT SEPTEMBER 30, 2017	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ 950,198	\$ (20,644)	\$ 1,714	\$ -	\$ (27,617)	\$ -	\$ (43,372)	\$ 56,576,216	\$ 2,230,015	\$ 58,806,231	
BALANCE AT JANUARY 1, 2018	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ 1,458,313	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (43,372)	\$ 57,023,237	\$ 2,134,282	\$ 59,157,519	
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637	-	40,637	
BALANCE AT JANUARY 1, 2018 AS RESTATED	54,709,846	799,999	206,092	-	1,458,373	(34,986)	-	42,351	-	(74,429)	(43,372)	57,063,874	2,134,282	59,198,156	
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978	-	409,978	
Basis adjustment to gain on hedging instruments	-	-	-	-	-	-	-	-	-	37,116	-	37,116	-	37,116	
Appropriation of 2017 earnings	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-	-	-	
Legal reserve	-	-	-	-	(118,810)	-	-	-	-	-	-	-	-	-	
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-	-	-	
Cash dividends - \$0.2181820086	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)	-	(1,193,670)	
Net profit for the nine months ended September 30, 2018	-	-	-	-	1,269,440	-	-	-	-	-	-	1,269,440	359,955	1,629,395	
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	12,014	-	8,560	-	93,631	-	114,205	(4,556)	109,649	
Total comprehensive income for the nine months ended September 30, 2018	-	-	-	-	1,269,440	12,014	-	8,560	-	93,631	-	1,383,645	355,399	1,739,044	
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(171,019)	(171,019)	
Non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	565,888	565,888	
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	-	-	(257,982)	(257,982)	-	(257,982)	
BALANCE AT SEPTEMBER 30, 2018	\$ 54,709,846	\$ 1,209,977	\$ 351,923	\$ 118,810	\$ 1,269,502	\$ (22,972)	\$ -	\$ 50,911	\$ -	\$ 56,318	\$ (301,354)	\$ 57,442,961	\$ 2,884,550	\$ 60,327,511	

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

(With Deloitte & Touche auditors' review report dated November 8, 2018)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 2,286,395	\$ 1,997,588
Adjustments to reconcile net cash generated from (used in) operating activities:		
Depreciation expenses	14,379,980	13,707,159
Amortization expenses	142,226	195,164
Bad-debts expense	37,491	38,006
Net (gain) loss on fair value changes of financial assets and liabilities held for trading	(10,204)	27,488
Interest income	(226,694)	(156,833)
Dividend income	(7,705)	(9,057)
Share of profit of associates and joint ventures	(244,917)	(385,762)
Loss (gain) on disposal of property, plant and equipment	280,195	(215)
Loss (gain) on disposal of noncurrent assets held for sale	368,992	(147,568)
Gain on disposal of investments	(450,195)	(119,739)
Loss on financial assets carried at cost	-	56,023
Loss on inventory and property, plant and equipment	550,382	601,565
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	60,812	3,692,410
Net loss (gain) on foreign currency exchange	311,002	(189,646)
Finance costs	1,015,475	1,013,780
Recognition of provisions	2,577,389	2,371,400
Amortization of unrealized gain on sale-leasebacks	(10,884)	(10,884)
Changes in operating assets and liabilities		
Financial assets and liabilities held for trading	-	124,146
Financial assets mandatorily classified as at fair value through profit or loss	732,365	-
Notes and accounts receivable	(1,235,248)	(14,893)
Accounts receivable - related parties	117,328	(5,295)
Other receivables	(103,940)	351,722
Inventories	(290,784)	(554,836)
Other current assets	157,879	1,597,777
Notes and accounts payable	540,038	(435,870)
Accounts payable - related parties	149,009	295,765
Other payables	476,974	(177,870)
Contract liabilities	1,103,553	-
Deferred revenue	-	543,818
Provisions	(2,309,957)	(920,122)
Other current liabilities	117,238	270,548
Accrued pension liabilities	(214,214)	(804,232)
Other liabilities	8,796	18,911
Cash generated from operations	<u>20,308,777</u>	<u>22,970,448</u>

(Continued)



# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2018	2017
Interest received	\$ 182,837	\$ 143,127
Dividends received	224,301	458,880
Interest paid	(1,081,492)	(1,057,576)
Income tax paid	<u>(162,870)</u>	<u>(141,286)</u>
Net cash generated from operating activities	<u>19,471,553</u>	<u>22,373,593</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of noncurrent assets held for sale	688,427	836,768
Payments for property, plant and equipment	(4,128,575)	(6,711,221)
Proceeds from disposal of property, plant and equipment	300,162	80,840
Proceeds from disposal of investments accounted for by using the equity method	-	380,850
Increase in refundable deposits	(81,314)	(158,364)
Decrease in refundable deposits	204,834	174,876
Increase in prepayments for equipment	(10,562,015)	(11,824,421)
Increase in computer software costs	(129,832)	(83,936)
(Increase) decrease in restricted assets	(27,670)	1,362
Acquisition of subsidiaries	<u>136,769</u>	<u>-</u>
Net cash used in investing activities	<u>(13,599,214)</u>	<u>(17,303,246)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	1,150,000	120,000
Decrease in short-term loans	(1,270,000)	(225,000)
Increase in short-term bill payable	350,060	-
Decrease in short-term bills payable	(350,060)	(890,000)
Payments for buy-back ordinary shares	(257,982)	-
Proceeds from issuance of bonds payable	6,012,000	2,350,000
Repayments of bonds payable	(2,700,000)	(2,700,000)
Proceeds of long-term debts and capital lease obligations	12,292,996	21,247,000
Repayments of long-term debts and capital lease obligations	(19,048,299)	(23,096,592)
Proceeds of guarantee deposits received	120,609	122,192
Refunds of guarantee deposits received	(63,773)	(86,715)
Proceeds from acquisition of subsidiaries' shares	-	(48,387)
Dividends paid to owners of the Company	(1,193,670)	-
Cash dividends paid to non-controlling interests	<u>(171,019)</u>	<u>(39,920)</u>
Net cash used in financing activities	<u>(5,129,138)</u>	<u>(3,247,422)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(100,618)</u>	<u>(241,629)</u>

(Continued)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

---

	For the Nine Months Ended September 30	
	2018	2017
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 642,583	\$ 1,581,296
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>22,585,332</u>	<u>24,267,197</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 23,227,915</u>	<u>\$ 25,848,493</u>

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

(With Deloitte & Touche auditors' review report dated November 8, 2018)

(Concluded)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (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 September 30, 2018, December 31, 2017 and September 30, 2017, CADF and NDF held a combined 43.63% of the Company’s shares.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement of the Company and its subsidiaries (collectively, the “Group”) were approved by the board of directors and authorized for issue on November 8, 2018.

### 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:

- 1) IFRS 9 “Financial Instruments” and related amendments

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

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

## Classification, measurement and impairment of financial assets

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

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

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

Financial Asset	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi- cations	Remea- surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTOCI</u>							
Equity instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Add: Reclassification from FVTPL (IAS 39)	-	-	-	-	60	(60)	b)
Add: Financial assets carried at cost (IAS 39)	-	84,075	47,510	131,585	-	40,637	a)
	<u>\$ -</u>	<u>\$ 84,075</u>	<u>\$ 47,510</u>	<u>\$ 131,585</u>	<u>\$ 60</u>	<u>\$ 40,577</u>	

- a) Investments in unlisted shares previously carried at cost under IAS 39 have been classified as designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$47,510 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.
- b) Mutual funds held by investments accounted for using the equity method previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The retrospective adjustment resulted in a decrease of \$60 thousand in other equity - unrealized gain (loss) on available-for-sale financial assets and an increase of \$60 thousand in retained earnings on January 1, 2018.
- c) Contracts such as principal-protected notes signed by the Group and financial institutions are hybrid instruments. Since the related master contracts included in these hybrid instruments are assets within the scope of IFRS 9, the overall master contracts should be classified under IFRS 9.
- d) Except for the above, the remaining financial assets classified as loans and receivables amounting to \$34,792,801 thousand based on IAS 39 are classified as financial assets at amortized cost under IFRS 9.
- e) In line with the equity adjustments above, the Group's deferred tax liabilities increased by \$6,873 thousand.

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

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

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

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

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

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

IFRS 16 “Leases”

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

Definition of a lease

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

### The Group as lessee

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

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

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

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

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

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

### The Group as lessor

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

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 3 “Business Definition”	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 (Note 3)
Amendments to IAS 1 and IAS 8 “Definition of Materiality”	January 1, 2021 (Note 3)

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

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

Note 3: Deferred during the annual period after January 1, 2020 are subjected to the amendment.

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

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

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, 2017.

##### **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, 2017.

##### **Financial Instruments**

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

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

## Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

### a. Measurement categories

#### 2018

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

#### 1) Financial assets at FVTPL

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

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

#### 2) Financial assets at amortized cost

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

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

#### 3) Investments in equity instruments at FVTOCI

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

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



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

## 2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

### 1) Financial assets at fair value through profit or loss

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

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

### 2) Available-for-sale financial assets

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

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

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

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

### 3) Loans and receivables

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

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

b. Impairment of financial assets

2018

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

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

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

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

2017

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

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

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

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

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

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

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

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

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

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

c. Derecognition of financial assets

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

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

Equity instruments

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

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

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

Financial liabilities

1) Subsequent measurement

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

## 2) Derecognition of financial liabilities

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

### **Hedge Accounting**

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

#### Cash flow hedges

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

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

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

### **Revenue Recognition**

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

- Identifying the contract with the customer;
- Identifying the performance obligations in the contract;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations in the contract; and
- Recognizing revenue when the Group satisfies a performance obligation.

#### Shipping service revenue

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

## **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. Changes during period due to tax law is consistent with the transaction that generates tax consequences has the same accounting principle, should recognize profit or loss, other comprehensive income or directly included in equity in the current period.

## **Business Combinations**

Goodwill is 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.

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

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

## **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, 2017.

### **a. Estimated impairment of financial assets - 2018**

The provision for the impairment of trade receivables is based on assumptions about the risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 11. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

**6. CASH AND CASH EQUIVALENTS**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Cash on hand and revolving fund	\$ 377,849	\$ 374,445	\$ 408,046
Checking accounts and demand deposits	8,802,191	11,427,766	9,356,923
Cash equivalents			
Time deposits with original maturities of less than three months	11,693,895	4,812,734	12,037,496
Repurchase agreements collateralized by bonds	<u>2,353,980</u>	<u>5,970,387</u>	<u>4,046,028</u>
	<u>\$ 23,227,915</u>	<u>\$ 22,585,332</u>	<u>\$ 25,848,493</u>

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Bank balance	0%-1.90%	0%-2.00%	0%-2.00%
Time deposits with original maturities of less than three months	0.4%-4.00%	0.59%-4.20%	0.59%-3.78%
Repurchase agreements collateralized by bonds	0.40%-4.70%	0.36%-2.20%	0.38%-1.66%

The amount of time deposits with original maturities of more than three months for December 31, 2017 and September 30, 2017 were \$1,323,095 thousand and \$684,496 thousand, respectively, and the respective market rate intervals were 0.16%-1.42% and 0.16%-1.065%, which were recognized as other current assets. (Refer to Note 19).

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Financial assets at FVTPL - current</u>			
Financial assets mandatorily classified as at FVTPL			
Non-derivative financial assets			
Beneficial certificates	<u>\$ 216,967</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Financial assets held for trading - current</u>			
Non-derivative financial assets			
Beneficial certificates	<u>\$ -</u>	<u>\$ 306,839</u>	<u>\$ 279,822</u>

(Continued)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Financial liabilities held for trading</u>			
Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts			
Current	\$ 1,063	\$ 8,655	\$ 13,360
Noncurrent	\$ -	\$ 926	\$ 2,634
			(Concluded)

	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount (In Thousands)</b>
<u>September 30, 2018</u>			
Buy forward contracts	NTD/USD	2018.10.31-2019.1.31	NTD61,162/USD2,000
<u>December 31, 2017</u>			
Buy forward contracts	NTD/USD	2018.01.31-2019.01.31	NTD194,030/USD6,500
<u>September 30, 2017</u>			
Buy forward contracts	NTD/USD	2017.10.31-2019.1.31	NTD424,242/USD14,000

## **8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018**

### **Investments in Equity Instruments**

	<b>September 30, 2018</b>
<u>Noncurrent</u>	
Foreign investments	
Unlisted shares	\$ 117,573
Domestic investments	
Unlisted shares	<u>23,582</u>
	<u>\$ 141,155</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. These investments in equity instruments were classified as available-for-sale and financial assets carried at cost under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

## 9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

**September 30,  
2018**

### Current

Time deposits with original maturities of more than 3 months (e) \$ 1,213,420

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.40% to 2.88% as of the end of the reporting period. The time deposits were classified as other financial assets under IAS 39. Refer to Notes 3, 6 and 19 for information relating to their reclassification and comparative information for 2017.

## 10. FINANCIAL ASSETS CARRIED AT COST - 2017

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
	<b>Carrying Value</b>	<b>Carrying Value</b>
Unlisted ordinary shares	\$ 83,602	\$ 83,412
Unlisted preferred shares	<u>473</u>	<u>473</u>
	<u>\$ 84,075</u>	<u>\$ 83,885</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 84,075</u>	<u>\$ 83,885</u>

Due to the permanent decrease in the value of an investment held by the Group, the Group recognized an impairment loss of \$56,023 thousand for the nine months ended September 30, 2017.

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were carried at cost less impairment at the end of the reporting period.

## 11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Notes receivable</u>	<u>\$ 642,101</u>	<u>\$ 362,855</u>	<u>\$ 444,756</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	9,393,707	8,423,278	8,074,845
Less: Allowance for impairment loss	<u>(219,258)</u>	<u>(181,868)</u>	<u>(222,249)</u>
	<u>9,174,449</u>	<u>8,241,410</u>	<u>7,852,596</u>
	<u>\$ 9,816,550</u>	<u>\$ 8,604,265</u>	<u>\$ 8,297,352</u>



For the nine months ended September 30, 2018

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

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

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

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

September 30, 2018

	<b>Not Past Due</b>	<b>Up to 30 Days</b>	<b>31 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>	<b>Total</b>
Expected credit loss rate	0.05%	0.15%	0.87%	21.19%	97.56%	-
Gross carrying amount	\$ 7,279,852	\$ 1,555,679	\$ 280,440	\$ 78,432	\$ 199,304	\$ 9,393,707
Loss allowance (lifetime ECLs)	<u>(3,497)</u>	<u>(2,261)</u>	<u>(2,438)</u>	<u>(16,618)</u>	<u>(194,444)</u>	<u>(219,258)</u>
Amortized cost	<u>\$ 7,276,355</u>	<u>\$ 1,553,418</u>	<u>\$ 278,002</u>	<u>\$ 61,814</u>	<u>\$ 4,860</u>	<u>\$ 9,174,449</u>

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

	<b>For the Nine Months Ended September 30, 2018</b>
Balance at January 1, 2018 per IAS 39	\$ 181,868
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	181,868
Add: Net remeasurement of loss allowance	37,491
Less: Amounts written off	(1,103)
Foreign exchange gains and losses	<u>1,002</u>
Balance at September 30, 2018	<u>\$ 219,258</u>
<u>September 30, 2017</u>	

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

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

	<b>For the Nine Months Ended September 30, 2017</b>
Beginning balance	\$ 191,398
Impairment loss recognized on receivables	38,006
Amounts written off during current period	(7,058)
Amounts receivable during current period	(86)
Effects of exchange rate changes	<u>(11)</u>
Ending balance	<u>\$ 222,249</u>

## 12. INVENTORIES

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Aircraft spare parts	\$ 7,810,991	\$ 8,082,993	\$ 8,034,146
Items for in-flight sale	561,817	576,429	558,467
Work in process - maintenance services	299,701	71,046	66,861
Others	<u>20,481</u>	<u>1,287</u>	<u>3,517</u>
	<u>\$ 8,692,990</u>	<u>\$ 8,731,755</u>	<u>\$ 8,662,991</u>

The operating costs recognized for the nine months ended September 30, 2018 and 2017 included losses from inventory write-downs of \$369,226 thousand and \$325,686 thousand, respectively. And the operating costs for the three months ended September 30, 2018 and 2017 included losses from inventory write-downs of \$44,828 thousand and \$100,968 thousand, respectively.

### 13. NONCURRENT ASSETS HELD FOR SALE

	September 30, 2018	December 31, 2017	September 30, 2017
Aircraft held for sale	\$ 110,778	\$ 309,330	\$ 494,686
Long-term equity investments held for sale - Asian Compressor Technology Services	_____ -	_____ 117,223	_____ -
	<u>\$ 110,778</u>	<u>\$ 426,553</u>	<u>\$ 494,686</u>

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

The Company recognized impairment losses of \$10,812 thousand and \$3,571,301 thousand for the nine months ended September 30, 2018 and 2017. Some aircraft had completed the planned disposal procedures, and the Company recognized the disposal gains and losses of \$(368,992) thousand and \$147,568 thousand for the nine months ended September 30, 2018 and 2017, respectively.

The Company hasn't recognized impairment losses for the three months ended September 30, 2018 and 2017. Some aircraft had completed the planned disposal procedures, and the Company recognized the disposal gains and losses of \$0 and \$82,544 thousand for the three months ended June 30, 2018 and 2017, respectively.

The related measurement of fair value is a Level 3 measure to which the second-hand market and the conditions of the aircraft were referred.

### 14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)		
			September 30, 2018	December 31, 2017	September 30, 2017
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100	100
	Cal-Asia Investment	General investment	100	100	100
	Hwa Hsia	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
	Dynasty Holidays	Travel business	51	51	51
	Taoyuan International Airport Services	Airport services	49	49	49
	Taiwan Airport Services (Note)	Airport services	48	48	48
	Global Sky Express	Forwarding and storage of air cargo	25	25	25
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	100	100	100
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100	100
Cal-Dynasty International	Kaohsiung Catering Services, Ltd.	In-flight catering	54	36	36
	Dynasty Properties Co., Ltd.	Real estate management	100	100	100
Taiwan Airport Services	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100	100
	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100	100

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

The Company increased its investments with a payment of \$490,000 thousand and \$700,000 thousand to Taiwan Aircraft Maintenance and Engineering Co., Ltd. for the purpose of building hangars in April 2017 and November 2017, respectively.

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 nine months ended September 30, 2018 and 2017 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 15.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 holding of the issued share capital exceeded 50%. Kaohsiung Catering is listed as a subsidiary because the Group has control over the investee. For the disclosure of the Group's acquisition of Kaohsiung Catering, refer to Note 31.

## 15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2018	December 31, 2017	September 30, 2017
Investments in associates	\$ 1,299,878	\$ 1,576,753	\$ 1,793,417
Investments in jointly controlled entities	<u>915,147</u>	<u>930,593</u>	<u>885,322</u>
	<u>\$ 2,215,025</u>	<u>\$ 2,507,346</u>	<u>\$ 2,678,739</u>

### a. Investments in associates

The amount of investments in associates were as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Unlisted companies</u>			
China Aircraft Services	\$ 498,423	\$ 493,077	\$ 507,323
Kaohsiung Catering Services	-	300,400	274,504
Asian Compressor Technology Services	-	-	248,904
Science Park Logistics	-	-	-
Airport Air Cargo Terminal (Xiamen)	484,941	483,814	472,183
Airport Air Cargo Service (Xiamen)	271,346	256,291	246,760
Eastern United International Logistics (Holdings) Ltd.	<u>45,168</u>	<u>43,171</u>	<u>43,743</u>
	<u>\$ 1,299,878</u>	<u>\$ 1,576,753</u>	<u>\$ 1,793,417</u>

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

Name of Associate	Proportion of Ownership and Voting Rights		
	September 30, 2018	December 31, 2017	September 30, 2017
China Aircraft Services	20%	20%	20%
Kaohsiung Catering Services	- (Note)	36%	36%
Asian Compressor Technology Services	-	-	25%
Science Park Logistics	-	-	-
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%

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

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
China Aircraft Services	\$ 1,889	\$ 6,314	\$ 922	\$ 21,769
Asian Compressor Technology Services	-	31,402	-	69,365
Kaohsiung Catering Services	-	23,554	15,113	60,120
Science Park Logistics	-	2,208	-	21,819
Airport Air Cargo Terminal (Xiamen)	4,944	4,889	17,465	15,265
Airport Air Cargo Service (Xiamen)	8,581	6,507	24,213	20,790
Eastern United International Logistics (Holdings) Ltd.	<u>1,444</u>	<u>643</u>	<u>3,515</u>	<u>1,757</u>
	<u>\$ 16,858</u>	<u>\$ 75,517</u>	<u>\$ 61,228</u>	<u>\$ 210,885</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.

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

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
China Pacific Catering Services	\$ 740,529	\$ 756,965	\$ 718,468
China Pacific Laundry Services	164,390	171,229	166,854
NORDAM Asia Ltd.	2,361	2,399	-
Delica International Co., Ltd.	<u>7,867</u>	<u>-</u>	<u>-</u>
	<u>\$ 915,147</u>	<u>\$ 930,593</u>	<u>\$ 885,322</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:

	<b>Proportion of Ownership and Voting Rights</b>		
	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%
NORDAM Asia Ltd.	49%	49%	-
Delica International Co., Ltd.	51%	-	-

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

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

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

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

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
China Pacific Catering Services	\$ 60,133	\$ 48,246	\$ 171,665	\$ 158,251
China Pacific Laundry Services	4,107	6,391	12,062	16,626
NORDAM Asia Ltd.	-	-	(38)	-
Delica International Co., Ltd.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 64,240</u>	<u>\$ 54,637</u>	<u>\$ 183,689</u>	<u>\$ 174,877</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.

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 6 and 7 (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.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2017	\$ 965,174	\$ 13,104,983	\$ 248,262,079	\$ 28,898,891	\$ 15,981,800	\$ 307,212,927
Additions	-	705,740	4,431,993	1,300,854	272,634	6,711,221
Disposals	-	(5,917)	(2,647,394)	(279,416)	(266,327)	(3,199,054)
Reclassification	-	-	4,034,925	(3,933,349)	52,415	153,991
Net exchange differences	(34,554)	(61,252)	-	-	(6,209)	(102,015)
Balance at September 30, 2017	<u>\$ 930,620</u>	<u>\$ 13,743,554</u>	<u>\$ 254,081,603</u>	<u>\$ 25,986,980</u>	<u>\$ 16,034,313</u>	<u>\$ 310,777,070</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2017	\$ -	\$ (5,781,555)	\$ (135,893,108)	\$ (15,846,688)	\$ (9,554,839)	\$ (167,076,190)
Depreciation expenses	-	(384,135)	(11,353,769)	(1,424,314)	(544,731)	(13,706,949)
Disposals	-	3,902	2,172,303	419,255	252,816	2,848,276
Net exchange differences	-	-	11,152,860	3,003,549	(5,199)	14,151,210
Reclassification	-	27,018	-	-	5,282	32,300
Impairment loss	-	-	(121,109)	-	-	(121,109)
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ (6,134,770)</u>	<u>\$ (134,042,823)</u>	<u>\$ (13,848,198)</u>	<u>\$ (9,846,671)</u>	<u>\$ (163,872,462)</u>
<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	-	43,240	2,766,009	-	1,319,326	4,128,575
Disposals	-	(11,523)	(19,649,879)	(1,811,222)	(219,967)	(21,692,591)
Reclassification	12,908	4,515	6,679,877	1,284,787	65,862	8,047,949
Net exchange differences	-	23,002	-	68	2,424	25,494
Acquisitions through business combinations	76,704	220,318	-	-	256,368	553,390
Balance at September 30, 2018	<u>\$ 1,012,238</u>	<u>\$ 13,977,860</u>	<u>\$ 253,223,151</u>	<u>\$ 25,661,189</u>	<u>\$ 17,654,024</u>	<u>\$ 311,528,462</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	-	(323,030)	(11,865,067)	(1,513,272)	(678,401)	(14,379,770)
Disposals	-	10,500	19,171,301	1,532,046	217,303	20,931,150
Reclassification	-	-	9,254,397	-	16,969	9,271,366
Net exchange differences	-	(11,132)	-	(1)	(6,697)	(17,830)
Balance at September 30, 2018	<u>\$ -</u>	<u>\$ (6,461,157)</u>	<u>\$ (120,034,134)</u>	<u>\$ (14,124,099)</u>	<u>\$ (10,423,808)</u>	<u>\$ (151,043,198)</u>

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 nine months ended September 30, 2018 and 2017 of \$50,000 thousand and \$121,109 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.

## 17. INVESTMENT PROPERTIES

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Carrying amount			
Investment properties	<u>\$ 2,075,414</u>	<u>\$ 2,075,624</u>	<u>\$ 2,075,693</u>

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

The fair values of the investment properties held by the Group were both \$2,506,230 thousand as of December 31, 2017 and September 30, 2017. In addition, management assessed that there is no significant difference in the fair values of September 30, 2018 and December 31, 2017.

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.



## 18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
Balance at January 1, 2017	\$ 1,898,154	\$ -	\$ (761,039)	\$ 1,137,115
Additions	83,936	-	-	83,936
Amortization expenses	-	-	(195,164)	(195,164)
Effects of exchange rate changes	-	-	(79)	(79)
Balance at September 30, 2017	<u>\$ 1,982,090</u>	<u>\$ -</u>	<u>\$ (956,282)</u>	<u>\$ 1,025,808</u>
Balance at January 1, 2018	\$ 2,039,602	\$ -	\$ (1,020,257)	\$ 1,019,345
Additions	129,832	-	-	129,832
Amortization expenses	-	-	(142,226)	(142,226)
Acquisitions through business combinations	686	186,197	-	186,883
Reclassification	12,064	-	(540)	11,524
Effects of exchange rate changes	-	-	69	69
Balance at September 30, 2018	<u>\$ 2,182,184</u>	<u>\$ 186,197</u>	<u>\$ (1,162,954)</u>	<u>\$ 1,205,427</u>

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

## 19. OTHER ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Current</u>			
Other financial assets	\$ -	\$ 1,806,413	\$ 684,496
Temporary payments	688,640	464,258	441,662
Prepayments	2,725,130	2,834,936	1,701,622
Restricted assets	125,881	-	144,053
Others	709,986	895,931	310,555
	<u>\$ 4,249,637</u>	<u>\$ 6,001,538</u>	<u>\$ 3,282,388</u>

The Group designated its time deposits with original maturities of more than three months which were classified as other financial instruments as cash flow hedges to hedge exchange rate exposure from the expenditure of aircraft rentals. The losses on the effective portion of the cash flow hedges reclassified from equity for nine months ended September 30, 2017 were \$9,038 thousand, which were classified as operating costs in the statement of comprehensive income.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Noncurrent</u>			
Prepayments for aircraft	\$ 2,863,721	\$ 10,942,604	\$ 14,464,620
Prepayments - long-term	2,080,215	1,164,604	1,584,651
Refundable deposits	1,271,578	1,377,136	1,323,913
Restricted assets	131,551	161,398	161,394
Other financial assets	2,667	18,803	2,845
Others	<u>7,964</u>	<u>-</u>	<u>7,175</u>
	<u>\$ 6,357,696</u>	<u>\$ 13,664,545</u>	<u>\$ 17,544,598</u>

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

## 20. BORROWINGS

### a. Short-term loans

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Bank loans - unsecured	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 33,030</u>
Interest rates	-	1.04%-1.05%	1.10%

### b. Short-term and bills payable

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Commercial paper	\$ -	\$ -	\$ 10,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000</u>
Annual discount rate	-	-	1.18%

c. Long-term debts

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Unsecured bank loans	\$ 16,398,834	\$ 26,820,000	\$ 28,504,833
Secured bank loans	32,220,986	32,176,074	32,849,057
Commercial paper			
Proceeds from issue	31,280,000	26,100,000	28,500,000
Less: Unamortized discounts	<u>63,530</u>	<u>37,897</u>	<u>24,966</u>
	79,836,290	85,058,177	89,828,924
Less: Current portion	<u>19,735,094</u>	<u>19,304,674</u>	<u>27,740,345</u>
	<u>\$ 60,101,196</u>	<u>\$ 65,753,503</u>	<u>\$ 62,088,579</u>
Interest rates	0.92%-1.44%	0.92%-1.72%	0.65%-1.82%

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Periods	2007.5.24- 2030.4.25	2007.5.24- 2029.11.9	2006.7.11- 2029.6.29

Bank loans (New Taiwan dollars, U.S. dollars and Japanese yen) are repayable quarterly, semiannually or in lump sum upon maturity.

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 September 30, 2018, December 31, 2017 and September 30, 2017, such commercial paper was issued at discount rates of 1.0580%-1.2960%, 0.9983%-1.2897% and 0.9983%-1.2897%, respectively.

## 21. BONDS PAYABLE

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Unsecured corporate bonds first-time issued in 2013	\$ 5,500,000	\$ 8,200,000	\$ 8,200,000
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	-

(Continued)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Convertible bonds issued the fifth time	\$ 1,689,988	\$ 1,667,100	\$ 1,659,457
Convertible bonds issued the sixth time	<u>5,653,991</u>	<u>-</u>	<u>-</u>
	28,393,979	25,417,100	21,909,457
Less: Current portion and put option of convertible bonds	<u>4,439,988</u>	<u>4,367,100</u>	<u>2,700,000</u>
	<u>\$ 23,953,991</u>	<u>\$ 21,050,000</u>	<u>\$ 19,209,457</u> (Concluded)

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.1.17-2018.1.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	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	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	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 October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year 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 \$3,316,800 thousand were converted to 270,985 thousand shares of ordinary shares.

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

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

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request that the Company repurchase their bonds at face value on the third anniversary of the offering date. The holders can exercise the right to sell on January 30, 2021.
- c. The Company may redeem the bonds at face value between April 30, 2018 and December 20, 2022 under certain conditions.
- d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's ordinary shares. The initial conversion price was set at NT\$13.2, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of August 14, 2018, the conversion price was adjusted to NT\$12.9.

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

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

## 22. LEASING

### a. Sale-leaseback finance leases

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Minimum lease payments - flight equipment</u>			
Within one year	\$ 670,000	\$ 1,580,000	\$ 1,726,000
Beyond one year and within five years	<u>-</u>	<u>596,000</u>	<u>670,000</u>
Present value of minimum lease payments	<u>\$ 670,000</u>	<u>\$ 2,176,000</u>	<u>\$ 2,396,000</u>
Interest rates	1.0617%	1.0617%- 1.1317%	1.0617%- 1.1317%

The Group had leased one A330-300 aircraft under sale-leaseback contracts under finance leases as of September 30, 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.

### b. Finance leases

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Minimum lease payments - Cargo Terminal and others</u>			
Within one year	\$ 37,822	\$ 37,484	\$ 30,398
Beyond one year and within five years	<u>12,486</u>	<u>40,851</u>	<u>57,400</u>
	50,308	78,335	87,798
Less: Finance costs	<u>(710)</u>	<u>(792)</u>	<u>(2,351)</u>
Present value of minimum lease payments	<u>\$ 49,598</u>	<u>\$ 77,543</u>	<u>\$ 85,447</u>
<u>Present value of minimum lease payments - Cargo Terminal and others</u>			
Within one year	\$ 37,333	\$ 37,321	\$ 29,615
Beyond one year and within five years	<u>12,265</u>	<u>40,222</u>	<u>55,832</u>
	<u>\$ 49,598</u>	<u>\$ 77,543</u>	<u>\$ 85,447</u>
Discount rate	4.756%	4.756%	4.756%

(Continued)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Total amount of present value of minimum lease payments			
Current	\$ 707,333	\$ 1,617,321	\$ 1,755,615
Noncurrent	<u>12,265</u>	<u>636,222</u>	<u>725,832</u>
	<u>\$ 719,598</u>	<u>\$ 2,253,543</u>	<u>\$ 2,481,447</u> (Concluded)

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

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

Of the rental rates stated in the aircraft lease agreements, some are fixed and some are floating. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of September 30, 2018, the Group has rented eleven A330-300 planes, fifteen 737-800 planes, ten 777-300ER planes, six ERJ190 planes, three ATR72-600 planes and ten A320-200 planes under operating contracts for which the lease terms range from 6 to 12 years.

As of September 30, 2018, December 31, 2017 and September 30, 2017, the refundable deposits paid by the Group under operating lease contracts were \$871,445 thousand, \$807,629 thousand and \$898,068 thousand, respectively. Some of the guarantees were secured by credit guarantees, and outstanding credit guarantees as of September 30, 2018, December 31, 2017 and September 30, 2017 were \$1,467,752 thousand, \$1,394,791 thousand and \$1,415,923 thousand, respectively.

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Up to 1 year	\$ 11,948,214	\$ 11,499,501	\$ 11,402,423
Over 1 year to 5 years	43,500,913	43,175,899	43,053,332
Over 5 years	<u>24,232,200</u>	<u>29,762,766</u>	<u>31,376,924</u>
	<u>\$ 79,681,327</u>	<u>\$ 84,438,166</u>	<u>\$ 85,832,679</u>

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

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Minimum lease payments	<u>\$ 2,991,058</u>	<u>\$ 2,891,306</u>	<u>\$ 8,717,449</u>	<u>\$ 8,631,115</u>

## 23. OTHER PAYABLES

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Fuel costs	\$ 4,068,459	\$ 3,484,288	\$ 2,800,530
Ground service expenses	1,345,208	1,187,329	1,182,311
Repair expenses	1,193,528	926,686	1,058,017
Interest expenses	212,902	290,902	197,765
Short-term employee benefits	2,312,632	2,550,551	2,255,736
Terminal surcharges	893,254	876,108	739,944
Commission expenses	322,483	407,109	286,642
Others	<u>3,245,601</u>	<u>3,310,096</u>	<u>2,888,039</u>
	<u>\$ 13,594,067</u>	<u>\$ 13,033,069</u>	<u>\$ 11,408,984</u>

## 24. CONTRACT LIABILITIES/DEFERRED REVENUE

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Frequent flyer program	\$ 2,439,045	\$ 2,450,877	\$ 2,425,479
Advance ticket sales	<u>16,857,486</u>	<u>15,743,177</u>	<u>14,747,421</u>
	<u>\$ 19,296,531</u>	<u>\$ 18,194,054</u>	<u>\$ 17,172,900</u>
Current	\$ 17,461,822	\$ 16,375,789	\$ 15,371,818
Noncurrent	<u>1,834,709</u>	<u>1,818,265</u>	<u>1,801,082</u>
	<u>\$ 19,296,531</u>	<u>\$ 18,194,054</u>	<u>\$ 17,172,900</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

## 25. PROVISIONS

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Operating leases - aircraft	<u>\$ 8,941,770</u>	<u>\$ 8,489,308</u>	<u>\$ 8,624,320</u>
Current	\$ 511,301	\$ 475,725	\$ 64,945
Noncurrent	<u>8,430,469</u>	<u>8,013,583</u>	<u>8,559,375</u>
	<u>\$ 8,941,770</u>	<u>\$ 8,489,308</u>	<u>\$ 8,624,320</u>



	<b>Aircraft Lease Contracts</b>
Balance at January 1, 2017	\$ 7,490,154
Additional provisions recognized	2,371,400
Usage	(920,122)
Effects of exchange rate changes	<u>(317,112)</u>
Balance at September 30, 2017	<u>\$ 8,624,320</u>
Balance at January 1, 2018	\$ 8,489,308
Additional provisions recognized	2,577,389
Usage	(2,309,957)
Effects of exchange rate changes	<u>185,030</u>
Balance at September 30, 2018	<u>\$ 8,941,770</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.

## 26. 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, 2017 and 2016.

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Operating costs	\$ 254,727	\$ 188,430	\$ 762,769	\$ 565,228
Operating expenses	<u>115,296</u>	<u>87,386</u>	<u>342,315</u>	<u>226,366</u>
	<u>\$ 370,023</u>	<u>\$ 275,816</u>	<u>\$ 1,105,084</u>	<u>\$ 791,594</u>

## 27. EQUITY

### a. Share capital

#### Ordinary shares

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Number 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>\$ 54,709,846</u>	<u>\$ 54,709,846</u>	<u>\$ 54,709,846</u>

b. Capital surplus

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Issuance of shares in excess of par value and conversion premium	\$ 552,696	\$ 552,696	\$ 552,696
Treasury share transactions	2,673	2,673	2,673
Employee share options expired	11,747	11,747	11,747
Long-term investments	955	955	955
Bonds payable - equity component	556,567	146,589	146,589
Others	<u>85,339</u>	<u>85,339</u>	<u>85,339</u>
	<u>\$ 1,209,977</u>	<u>\$ 799,999</u>	<u>\$ 799,999</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 2016

The legal reserve of \$81,132 thousand and special reserve of \$76,486 thousand used to offset deficits were resolved by the shareholders in their meeting on June 22, 2017.

2) Appropriation of earnings in 2017

The appropriation of earnings for 2017 was resolved in the board of directors meeting on September 28, 2018. The appropriation of earnings and dividends per share were as follows:

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

d. Other equity items

The movements of other equity items were as follows:

	<b>Exchange Differences on Translating Foreign Operations</b>	<b>Unrealized Gain (Loss) on Available-for- sale Financial Assets</b>	<b>Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income</b>	<b>Cash Flow Hedges</b>	<b>Gain (Loss) on Hedging Instruments</b>	<b>Total</b>
Balance on January 1, 2017	\$ 78,564	\$ 1,714	\$ -	\$ 31,986	\$ -	\$ 112,264
Exchange differences on translating foreign operations	(118,908)	-	-	-	-	(118,908)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	(244,526)	-	(244,526)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	172,714	-	172,714
Effects of income tax	<u>19,700</u>	<u>-</u>	<u>-</u>	<u>12,209</u>	<u>-</u>	<u>31,909</u>
Other comprehensive income recognized in the period	<u>(99,208)</u>	<u>-</u>	<u>-</u>	<u>(59,603)</u>	<u>-</u>	<u>(158,811)</u>
Balance on September 30, 2017	<u>\$ (20,644)</u>	<u>\$ 1,714</u>	<u>\$ -</u>	<u>\$ (27,617)</u>	<u>\$ -</u>	<u>\$ (46,547)</u>
Balance on January 1, 2018	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$(107,641)
Adjustments on initial application of IFRS 9	<u>-</u>	<u>(1,774)</u>	<u>42,351</u>	<u>74,429</u>	<u>(74,429)</u>	<u>40,577</u>
Balance on January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	14,702	-	-	-	-	14,702
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	88,842	88,842
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	31,554	\$ 31,554
Unrealized gain on financial assets at fair value through other comprehensive income	-	-	10,835	-	-	10,835

(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
Effect of change in tax rate	\$ 1,198	\$ -	\$ (1,209)	\$ -	\$ 2,530	\$ 2,519
Effects of income tax	(3,886)	-	(1,066)	-	(29,295)	(34,247)
Other comprehensive income (loss) recognized in the period	12,014	-	8,560	-	93,631	114,205
Transfers of initial carrying amount of hedged items	-	-	-	-	37,116	37,116
Balance on September 30, 2018	<u>\$ (22,972)</u>	<u>\$ -</u>	<u>\$ 50,911</u>	<u>\$ -</u>	<u>\$ 56,318</u>	<u>\$ 84,257</u>

(Concluded)

e. Non-controlling interests

	<b>For the Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 2,134,282	\$ 2,083,381
Net income attributable to non-controlling interests	359,955	236,732
Exchange differences on translating foreign operations	(4,623)	(5,305)
Effects of income tax	-	1,287
Cumulative loss on changes in fair value of hedging instruments	-	(106)
Gain on hedging instruments	23	-
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	<u>44</u>	<u>64</u>
	(4,556)	(4,060)
Acquisition of non-controlling interests in subsidiaries	-	(46,118)
Non-controlling interests arising from acquisition of subsidiaries	565,888	-
Dividends paid by subsidiaries	<u>(171,019)</u>	<u>(39,920)</u>
Ending balance	<u>\$ 2,884,550</u>	<u>\$ 2,230,015</u>

f. Treasury shares

(Shares in Thousands)

Purpose of Treasury Shares	Buy back to write off	Company's shares held by its subsidiaries	Total
Number of Shares, January 1, 2018	-	2,889	2,889
Addition during the year	<u>27,603</u>	-	<u>27,603</u>
Number of Shares, September 30, 2018	<u>27,603</u>	<u>2,889</u>	<u>30,492</u>
Number of Shares, January 1, 2017	-	2,889	2,889
Addition during the year	-	-	-
Number of Shares, September 30, 2017	<u>-</u>	<u>2,889</u>	<u>2,889</u>

Treasury shares are the Company's shares held by its subsidiaries as of September 30, 2018 and 2017 and were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>September 30, 2018</u>			
Mandarin Airlines	2,075	\$ 19,190	\$ 19,190
Hwa Hsia	814	<u>7,531</u>	<u>7,531</u>
		<u>\$ 26,721</u>	<u>\$ 26,721</u>
<u>December 31, 2017</u>			
Mandarin Airlines	2,075	\$ 24,169	\$ 24,169
Hwa Hsia	814	<u>9,485</u>	<u>9,485</u>
		<u>\$ 33,654</u>	<u>\$ 33,654</u>
<u>September 30, 2017</u>			
Mandarin Airlines	2,075	\$ 23,443	\$ 23,443
Hwa Hsia	814	<u>9,200</u>	<u>9,200</u>
		<u>\$ 32,643</u>	<u>\$ 32,643</u>

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

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

To maintain the Company's credit standing and shareholders' rights and interests, the board of directors decided to buy back shares of the Company from Taiwan Stock Exchange at a price from \$9 to \$14 per share. The expected period of purchase is from August 10, 2018 to October 9, 2018. As of September 30, 2018, 27,603 thousand shares had been repurchased. Under the Securities Exchange Act, the treasury shares held by the Company cannot be pledged and are not entitled to dividends distribution and voting rights, etc.

## 28. NET INCOME

### a. Revenue

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2018	2017	2018	2017
Passenger	\$ 28,600,603	\$ 26,724,874	\$ 81,780,806	\$ 76,571,150
Cargo	13,196,780	11,179,232	35,040,268	30,129,719
Others	<u>3,399,381</u>	<u>2,638,597</u>	<u>9,386,552</u>	<u>7,794,913</u>
	<u>\$ 45,196,764</u>	<u>\$ 40,542,703</u>	<u>\$ 126,207,626</u>	<u>\$ 114,495,782</u>

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

b. Other income

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Interest income	\$ 85,176	\$ 59,515	\$ 226,694	\$ 156,833
Dividend income	-	3,069	7,705	9,057
Others	<u>63,324</u>	<u>69,283</u>	<u>202,625</u>	<u>269,313</u>
	<u>\$ 148,500</u>	<u>\$ 131,867</u>	<u>\$ 437,024</u>	<u>\$ 435,203</u>

c. Other gains and losses

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Gain (loss) on disposal of property, plant and equipment	\$ 2,764	\$ (2,498)	\$ (280,195)	\$ 215
Gain (loss) on disposal of noncurrent assets held for sale	-	82,544	(368,992)	147,568
Net gain (loss) on financial assets classified as held for sale	1,041	787	10,204	(27,488)
Gain (loss) on disposal of investments	(6,231)	119,800	450,195	119,739
Gain or loss on foreign exchange, net	(59,751)	33,825	(22,408)	(84,770)
Impairment loss recognized on property, plant and equipment and noncurrent assets held for sale	-	-	(60,812)	(3,692,410)
Loss on financial assets carried at cost	-	-	-	(56,023)
Others	<u>(53,500)</u>	<u>(182,868)</u>	<u>(201,339)</u>	<u>(351,767)</u>
	<u>\$ (115,677)</u>	<u>\$ 51,590</u>	<u>\$ (473,347)</u>	<u>\$ (3,944,936)</u>

d. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest expense				
Bonds payable	\$ 101,337	\$ 80,320	\$ 297,699	\$ 233,427
Bank loans	245,469	252,626	701,992	735,276
Interest on obligations under financial leases	2,608	12,648	15,784	42,263
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,814</u>
	<u>\$ 349,414</u>	<u>\$ 345,594</u>	<u>\$ 1,015,475</u>	<u>\$ 1,013,780</u>
Capitalization rate	1.22%-1.24%	1.31%-1.37%	1.16%-1.31%	1.31%-1.41%
Capitalization interest	<u>\$ 7,332</u>	<u>\$ 46,301</u>	<u>\$ 37,174</u>	<u>\$ 175,217</u>

e. Depreciation and amortization expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Property, plant, equipment	\$ 4,841,657	\$ 4,552,496	\$ 14,379,770	\$ 13,706,949
Investment properties	70	70	210	210
Intangible assets	<u>49,742</u>	<u>66,706</u>	<u>142,226</u>	<u>195,164</u>
Depreciation and amortization expenses	<u>\$ 4,891,469</u>	<u>\$ 4,619,272</u>	<u>\$ 14,522,206</u>	<u>\$ 13,902,323</u>
An analysis of depreciation by function				
Operating costs	\$ 4,615,657	\$ 4,382,636	\$ 13,707,154	\$ 13,202,026
Operating expenses	<u>226,070</u>	<u>169,930</u>	<u>672,826</u>	<u>505,133</u>
	<u>\$ 4,841,727</u>	<u>\$ 4,552,566</u>	<u>\$ 14,379,980</u>	<u>\$ 13,707,159</u>
An analysis of amortization by function				
Operating costs	\$ 3,167	\$ 141	\$ 7,486	\$ 141
Operating expenses	<u>46,575</u>	<u>66,565</u>	<u>134,740</u>	<u>195,023</u>
	<u>\$ 49,742</u>	<u>\$ 66,706</u>	<u>\$ 142,226</u>	<u>\$ 195,164</u>

f. Employment benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Post-employment benefits				
Defined contribution plans	\$ 135,144	\$ 123,268	\$ 403,346	\$ 358,836
Defined benefit plans	<u>370,023</u>	<u>275,816</u>	<u>1,105,084</u>	<u>791,594</u>
	<u>\$ 505,167</u>	<u>\$ 399,084</u>	<u>\$ 1,508,430</u>	<u>\$ 1,150,430</u>
Other employee benefits				
Salary expenses	\$ 5,312,293	\$ 5,208,110	\$ 15,629,251	\$ 14,877,120
Personnel service expenses	<u>1,364,359</u>	<u>1,364,674</u>	<u>4,270,161</u>	<u>4,065,845</u>
	<u>\$ 6,676,652</u>	<u>\$ 6,572,784</u>	<u>\$ 19,899,412</u>	<u>\$ 18,942,965</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 6,068,834	\$ 5,825,101	\$ 17,799,326	\$ 16,694,579
Operating expenses	<u>1,112,985</u>	<u>1,146,767</u>	<u>3,608,516</u>	<u>3,398,816</u>
	<u>\$ 7,181,819</u>	<u>\$ 6,971,868</u>	<u>\$ 21,407,842</u>	<u>\$ 20,093,395</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 nine months ended September 30, 2018, the employees' compensation was \$448,826 thousand, for the three months ended September 30, 2018, the employees' compensation was \$380,019 thousand of the base net profit. For the nine months ended September 30, 2017, the Company has experienced a deficit, and therefore, no employees' compensation was 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 2017 and 2016 are available at the Market Observation Post System website of the Taiwan Stock Exchange.



## 29. INCOME TAX

### a. Income tax expense recognized in profit or loss

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Current tax				
Current year	\$ 79,221	\$ 57,840	\$ 202,710	\$ 141,173
Prior year adjustments	-	(1,247)	4,866	1,617
Deferred tax				
Current year	353,882	562,689	1,353,982	665,599
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>-</u>	<u>(904,558)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 433,103</u>	<u>\$ 619,282</u>	<u>\$ 657,000</u>	<u>\$ 808,389</u>

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

### b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ 2,371	\$ (646)	\$ (3,886)	\$ 20,980
Fair value changes of financial assets at FVTOCI	1,088	-	(1,066)	-
Fair value revaluation of hedging instruments for cash flow hedging	(4,104)	(5,060)	(29,295)	12,216
Effect of change in tax rate	<u>-</u>	<u>-</u>	<u>2,519</u>	<u>-</u>
Total income tax recognized in other comprehensive income	<u>\$ (645)</u>	<u>\$ (5,706)</u>	<u>\$ (31,728)</u>	<u>\$ 33,196</u>

### c. Income tax assessment

Income tax returns for 2016 of the Company and those for 2015 of its subsidiaries have been examined by the tax authorities.

### 30. EARNINGS (LOSSES) PER SHARE

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Basic earnings (losses) per share	<u>\$ 0.20</u>	<u>\$ 0.54</u>	<u>\$ 0.23</u>	<u>\$ 0.17</u>
Diluted earnings (losses) per share	<u>\$ 0.18</u>	<u>\$ 0.53</u>	<u>\$ 0.22</u>	<u>\$ 0.17</u>
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Earnings (losses) used in the computation of basic earnings per share	\$ 1,080,506	\$ 2,951,880	\$ 1,269,440	\$ 952,467
Effects of potentially dilutive ordinary shares:				
Interest on convertible bonds (after tax)	<u>27,260</u>	<u>6,257</u>	<u>75,243</u>	<u>18,485</u>
Earnings (losses) used in the computation of diluted earnings (losses) per share	<u>\$ 1,107,766</u>	<u>\$ 2,958,137</u>	<u>\$ 1,344,683</u>	<u>\$ 970,952</u>
Weighted average number of ordinary shares in computation of basic earnings (losses) per share	5,456,887	5,468,018	5,464,345	5,468,007
Effects of potentially dilutive ordinary shares:				
Convertible bonds	600,241	145,775	551,779	145,786
Employees' compensation or bonuses issued to employees	<u>41,083</u>	<u>4,427</u>	<u>54,042</u>	<u>6,833</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (losses) per share	<u>6,098,211</u>	<u>5,618,220</u>	<u>6,070,166</u>	<u>5,620,626</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.

### 31. BUSINESS COMBINATIONS

As stated in Note 14, the other disclosures of the Group's acquisition of Kaohsiung Catering on March 7, 2018 are as follows:

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

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

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

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

	<b>Kaohsiung Catering</b>
Revenue	<u>\$ 1,274,117</u>
Profit	<u>\$ 173,765</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 \$1,034,989 thousand and the profit from continuing operations would have been \$140,905 thousand for the six months ended June 30, 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.

### 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 31 in the Group's consolidated financial statements for the year ended December 31, 2017.

### 33. FINANCIAL INSTRUMENTS

#### a. Fair values of financial instruments

##### Financial instruments not evaluated at fair value

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

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<u>Financial liabilities</u>						
Bonds payable	\$ 28,393,979	\$ 28,469,383	\$ 25,417,100	\$ 25,818,511	\$ 21,909,457	\$ 22,313,019
Loans and debt	79,836,290	79,844,683	85,058,177	87,070,820	89,828,924	93,842,980

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of September 30, 2018, December 31, 2017 and September 30, 2017, 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 0.6976%, 0.75% and 1.566%, 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).

##### September 30, 2018

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at FVTPL</b>				
Domestic money market funds	<u>\$ 216,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,967</u>
<b>Financial assets at FVTOCI</b>				
<b>Investments in equity instruments</b>				
United shares - domestic	\$ -	\$ -	\$ 23,582	\$ 23,582
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>117,573</u>	<u>117,573</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,155</u>	<u>\$ 141,155</u>

(Continued)

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities at FVTPL				
Derivative instruments	\$ <u>          -</u>	\$ <u>  1,063</u>	\$ <u>          -</u>	\$ <u>  1,063</u>
Financial assets for hedging	\$ <u>          -</u>	\$ <u> 53,815</u>	\$ <u> 19,468</u>	\$ <u> 73,283</u>
Financial liabilities for hedging	\$ <u>          -</u>	\$ <u>   4,700</u>	\$ <u>          -</u>	\$ <u>   4,700</u> (Concluded)

December 31, 2017

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

September 30, 2017

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Domestic money market funds	\$ <u>279,822</u>	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>279,822</u>
Financial liabilities at FVTPL				
Derivative instruments	\$ <u>          -</u>	\$ <u> 15,994</u>	\$ <u>          -</u>	\$ <u> 15,994</u>
Derivative financial assets for hedging	\$ <u>          -</u>	\$ <u> 18,945</u>	\$ <u>          -</u>	\$ <u> 18,945</u>
Derivative financial liabilities for hedging	\$ <u>          -</u>	\$ <u> 51,515</u>	\$ <u>          -</u>	\$ <u> 51,515</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	The fair values of derivatives (except options) have been determined based on discounted cash flow analyses using interest yield curves applicable for the duration of the derivatives. The estimates and assumptions that the Group used to determine the fair values are identical to those used in the pricing of financial instruments for market participants.

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

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

The domestic unlisted equity investment is based on the comparative company valuation to estimate the fair value. The main assumptions are based on the multiplier of the market price of the comparable listed company and the net value per share, which have considered the liquidity discount. The higher the multiplier or the lower the liquidity discount, the higher the fair value of the relevant financial instruments. The multiplier on September 30, 2018 ranged from 0.85 to 18.68, and the liquidity discount is 80%.

The movements of Level 3 financial instruments are as follows:

	<b>Derivative Instruments</b>	<b>Equity Instruments</b>
Balance at January 1,2018	\$ -	\$ 84,075
Adjustments on initial application of IFRS 9	-	47,510
Other comprehensive income recognized during the period	<u>19,468</u>	<u>9,570</u>
Balance at September 30,2018	<u>\$ 19,468</u>	<u>\$ 141,155</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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 216,967	\$ 306,839	\$ 279,822
Available-for-sale financial assets (Note 3)	-	84,075	83,885
Financial assets for hedging	73,283	-	-
Derivative financial assets for hedging	-	293	18,945
Loans and receivables (Note 1)	-	35,276,119	36,939,970
Financial assets at amortized cost (Note 4)	36,648,336	-	-
Financial assets at FVTOCI - equity instrument investment	141,155	-	-
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	1,063	9,581	15,994
Financial liabilities for hedging	4,700	-	-
Derivative financial liabilities for hedging	-	89,289	51,515
Financial liabilities at amortized cost (Note 2)	134,196,720	127,928,250	136,774,434

Note 1: The balances of 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 of financial liabilities measured at amortized cost comprised short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, provisions, parts of other current liabilities, parts of other noncurrent liabilities and guarantee deposits.

Note 3: The balances of available-for-sale financial assets comprised financial assets carried at cost.

Note 4: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, accounts receivable - related parties, other receivables, refundable deposits and other restricted financial assets.

d. Financial risk management objectives and policies

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

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

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

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

period for U.S. dollars increase/decrease one dollar against New Taiwan dollars change in foreign currency rates.

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be an decrease in pre-tax profit for the nine months ended September 30, 2018 of \$31,615 thousand and a decrease in pre-tax profit for the nine months ended September 30, 2017 of \$35,020 thousand.

For the nine months ended September 30, 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.

September 30, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD2,064,067/ USD67,495	2018.10.5- 2019.9.25	28.3-31.2	Financial assets for hedging/liabilities for hedging	\$ 29,568	\$ 3,328
Aircraft prepayments - forward exchange contracts	NTD/USD	NTD1,070,336/ USD35,000	2018.10.15- 2018.10.19	28.8-30.7	Financial assets for hedging/liabilities for hedging	24,247	1,372

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in U.S. dollars and Aircraft prepayment) are \$26,240 thousand and \$22,875 thousand, respectively.

For the nine months ended September 30, 2018

<b>Comprehensive Income</b>	<b>Hedging Gain (Loss) Recognized in Other Comprehensive Income</b>	<b>Amount Reclassified to Profit and Loss and the Adjusted Line Item</b>
Cash flow hedge		
Aircraft rentals	\$ 79,234	\$ (29,512) (Note)
Aircraft prepayments	<u>21,761</u>	<u>-</u>
	<u>\$ 100,995</u>	<u>\$(29,512)</u>

Note: Increase in operating costs



For the nine months ended September 30,2018

<b>Comprehensive Income</b>	<b>Hedging Gains (Loss) Recognized in OCI</b>	<b>Amount Reclassified to P/L and the Adjusted Line Item</b>	
Cash flow hedge			
Aircraft rentals	\$ (7,599)	\$ 4,866	(Note)
Aircraft prepayments	<u>4,265</u>	<u>-</u>	
	<u>\$ (3,334)</u>	<u>\$ 4,866</u>	

Note: Decrease in operating costs.

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

And the amount of gains and losses on hedging instruments for the three months ended September 30, 2018 reclassified from profit or loss to prepayments for equipment was \$0.

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.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Fair value interest rate risk			
Financial liabilities	\$ 30,393,979	\$ 27,537,100	\$ 23,952,487
Cash flow interest rate risk			
Financial liabilities	78,555,888	85,311,720	90,310,371

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 nine months ended September 30, 2018 would have decreased by \$147,292 thousand.

Had interest rates increased one yard (25 basis) point and had all other variables been held constant, the Group's pretax profit for the nine months ended September 30, 2017 would have decreased by \$169,332 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.

September 30, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	US\$	NT\$19,468	2018.10.31-2018.11.30	US\$77.00-US\$92.85	Financial assets for hedging	\$ 19,468	\$ -

Hedge accounting is continued to be applied to the abovementioned hedging instruments continue to be applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$19,468 thousand.

For the nine months ended September 30, 2018

	Hedging Gain (Loss) Recognized in OCI	Amount Reclassified to P/L and the Adjusted Line Item
<b>Comprehensive Income</b>		
Cash flow hedges - fuel options	\$ 19,468	\$ (2,086) (Note)

Note: Increase in operating costs.

For the three months ended September 30, 2018

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
<b>Comprehensive Income</b>		
Cash flow hedges - fuel options	\$ 18,603	\$ (5,008) (Note)

Note: Increase in operating costs.

### Sensitivity analysis

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

	<b>For the Nine Months Ended September 30</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Pre-tax Profit Increase (Decrease)</b>	<b>Other Compre- hensive Income Increase (Decrease)</b>	<b>Pre-tax Profit Increase (Decrease)</b>	<b>Other Compre- hensive Income Increase (Decrease)</b>
Fuel price increase 5%	\$ 10,856	\$ 14,205	\$ -	\$ -
Fuel price decrease 5%	(3,016)	(15,739)	-	-

#### d) Hedge accounting in 2017

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

#### Derivative financial instrument for hedging

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<u>Derivative financial assets under hedge accounting</u>		
Foreign exchange forward contracts	<u>\$ 293</u>	<u>\$ 18,945</u>
Current	\$ 293	\$ 18,880
Noncurrent	<u>-</u>	<u>65</u>
	<u>\$ 293</u>	<u>\$ 18,945</u>

#### Derivative financial liabilities under hedge accounting

Foreign exchange forwards contracts	<u>\$ 89,289</u>	<u>\$ 51,515</u>
Current	\$ 82,295	\$ 46,558
Noncurrent	<u>6,994</u>	<u>4,957</u>
	<u>\$ 89,289</u>	<u>\$ 51,515</u>

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

#### Cash flow hedges

##### Foreign exchange forward contracts

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

December 31, 2017

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

September 30, 2017

	<u>Currency</u>	<u>Maturity Date</u>	<u>Notional Amount (In Thousands)</u>
Buy forward contracts	NTD/USD	2017.10.2-2019.6.21	NTD5,807,515/USD191,720

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

	<b>For the Three Months Ended September 30, 2017</b>	<b>For the Nine Months Ended September 30, 2017</b>
Increase in operating costs	\$ (14,491)	\$ (35,419)
Increase in finance costs	-	(2,814)
Other foreign exchange losses	<u>(5,810)</u>	<u>(22,138)</u>
	<u>\$ (20,301)</u>	<u>\$ (60,371)</u>

The amount of gains and losses on hedging instruments for the nine months ended September 30, 2017 reclassified from profit or loss to prepayments for equipment was \$103,369 thousand.

And the amount of gains and losses on hedging instruments for the three months ended September 30, 2017 reclassified from profit or loss to prepayments for equipment was \$12,831 thousand.

2) Credit risk

The goal, policies and procedure of credit risk management are same as consolidated financial statement in 2017. Related illustration can be referred to in Note 32.

3) Liquidity risk

The goal, policies and procedures of liquidity risk management are same as consolidated financial statement in 2017. Related illustration can be referred to in Note 32.

### 34. RELATED-PARTY TRANSACTIONS

The balances and transactions between the Company and its subsidiaries, including remaining account balance, revenue and expense, have been eliminated upon consolidation and are not disclosed in this note. Unless otherwise stated, the transactions between the Group and other business related parties are as follows:

a. The related parties' names and relationships

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

Account Items	Related Party Type	For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2018	2017	2018	2017
Other income	Major shareholders of the Company	\$ 5,887	\$ 9,373	\$ 24,395	\$ 25,142
	Associate	\$ 239	\$ 386	\$ 487	\$ 1,621
	Joint venture investment	\$ 9,926	\$ 10,444	\$ 31,330	\$ 35,455

c. Purchases

Related Party Type	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Major shareholders of the Company	\$ 13,307	\$ 21,405	\$ 54,831	\$ 56,695
Associate	\$ 107,717	\$ 203,646	\$ 383,150	\$ 529,058
Joint venture investment	\$ 483,642	\$ 477,352	\$ 1,446,459	\$ 1,405,931

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

Related Party Type	September 30, 2018	December 31, 2017	September 30, 2017
Major shareholders of the Company	\$ 1,766	\$ 1,928	\$ 3,041
Associates	-	-	196
Joint venture investments	<u>5,488</u>	<u>6,431</u>	<u>5,683</u>
	<u>\$ 7,254</u>	<u>\$ 8,359</u>	<u>\$ 8,920</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 were within 30 to 90 days, and there are no overdue payments.

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

Related Party Type	September 30, 2018	December 31, 2017	September 30, 2017
Major shareholders of the Company	\$ 3,752	\$ 4,454	\$ 6,765
Associates	53,226	116,525	143,435
Joint venture investments	<u>481,342</u>	<u>469,827</u>	<u>541,240</u>
	<u>\$ 538,320</u>	<u>\$ 590,806</u>	<u>\$ 691,440</u>

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

f. Leases of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, and the Company paid the rental based on usage hours. As of September 30, 2018 and 2017, the rental paid was \$54,831 thousand and \$56,695 thousand, respectively; for the three months ended September 30, 2018 and 2017, the Company's paid rentals amounted to \$13,307 thousand and \$21,405 thousand.

g. Endorsements and assurances

	<u>September 30, 2018</u>		<u>December 31, 2017</u>		<u>September 30, 2017</u>	
	Total Amount	Amount Used	Total Amount	Amount Used	Total Amount	Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 2,661,850	\$ 3,850,000	\$ 2,850,000	\$ 3,850,000	\$ 2,750,000
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	318,611	1,080,000	338,249
Cal Hotel Co., Ltd.	-	-	-	-	180,000	-
Taigerair Taiwan Co., Ltd.	1,076,427	415,931	1,055,604	405,998	1,068,500	412,150
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	2,000,000	302,097	-	-	-	-

h. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 9,366	\$ 10,118	\$ 34,503	\$ 34,110
Post-employment benefits	<u>800</u>	<u>946</u>	<u>2,519</u>	<u>2,897</u>
	<u>\$ 10,166</u>	<u>\$ 11,064</u>	<u>\$ 37,022</u>	<u>\$ 37,007</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:

	September 30, 2018	December 31, 2017	September 30, 2017
Property, plant and equipment	\$ 39,259,124	\$ 39,821,666	\$ 82,269,516
Restricted assets	<u>257,432</u>	<u>161,398</u>	<u>305,447</u>
	<u>\$ 39,516,556</u>	<u>\$ 39,983,064</u>	<u>\$ 82,574,963</u>

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

### 36. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2018, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

- a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircraft from Airbus, with the option to buy six more A350-900 aircraft, with aggregate purchase prices of US\$3,933,235 thousand and US\$1,802,645 thousand, respectively. The expected period of delivery of the aircraft was from 2016 to 2018. As of September 30, 2018, thirteen of the aircraft had been handed over to the Company, and the total list price of the remaining one aircraft was US\$287,746 thousand, which has been paid in the amount of US\$71,937 thousand (recognized as prepayments for aircraft).
- b. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircraft, and the total list price of the six aircraft was \$120,000 thousand. The expected delivery period ranges from June 2018 to June 2020. As of September 2018, two of the aircraft had been handed over to the company, and the total list price of the remaining four aircraft was \$80,000 thousand, a portion of which has been paid in the amount of US\$8,162 thousand (recognized as prepayments for aircraft).

- c. Taiwan Air Cargo Terminal Co. (“TACT”) signed a terminal construction contract with the Civil Aeronautics Administrations (“CAA”) on January 14, 2000. The chartered operation period (“COP”) is 20 years from the date of transfer of the chartered operation rights from the CAA to TACT. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received approval from the Taoyuan Airport Corporation and the CAA in July 2013 and July 2015, respectively.

The total expenditure of the main construction project mentioned above was \$6,840,000 thousand. As of June 30, 2017, TACT had signed the following construction contracts with non-related parties:

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

As of September 30, 2018, the accumulated consultant service expense and construction equipment amounted to \$473,599 thousand (VAT included) and \$5,126,571 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$460,578 thousand (VAT included) and \$5,116,895 thousand (VAT included) were reclassified to property, plant and equipment. The remaining accumulated 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%.

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

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 fees.

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.

- e. Taiwan Aircraft Maintenance Company contracted out Ronggong Engineering Co., Ltd. for a construction repair project. The contract expiration date is November 5, 2018, and the estimated total cost of the project is \$1.906 billion. As of September 30, 2018, \$1,291,575 thousand was paid (recognized as construction in progress).

### 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)**

September 30, 2018

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 438,565	30.5810	\$ 13,411,760
EUR	19,520	35.5872	694,678
HKD	281,665	3.9063	1,100,268
JPY	7,035,282	0.2690	1,892,469
CNY	436,507	4.4346	1,935,731
<u>Financial liabilities</u>			
Monetary items			
USD	408,950	30.5810	12,506,103
EUR	6,735	35.5872	239,679
HKD	89,390	3.9063	349,182
JPY	5,150,536	0.2690	1,385,480
CNY	165,240	4.4346	732,771

December 31, 2017

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

September 30, 2017

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 396,180	30.3030	\$ 12,005,435
EUR	14,374	35.7143	513,353
HKD	257,365	3.8790	987,104
JPY	5,482,202	0.2689	1,474,154
CNY	576,214	4.5393	2,615,605
<u>Financial liabilities</u>			
Monetary items			
USD	326,989	30.3030	9,908,749
EUR	5,489	35.7143	196,024
HKD	94,824	3.8790	366,914
JPY	4,849,975	0.2689	1,304,153
CNY	143,832	4.5393	652,896

For the three months ended September 30, 2018 and 2017, net foreign exchange (losses) gains were \$(59,751) thousand and \$33,825 thousand, respectively. For the nine months ended September 30, 2018 and 2017, net foreign exchange losses were \$22,408 thousand and \$84,770 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: Table 3 (attached)
  - 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 4 (attached)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
  - 9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached)
  - 10) Derivative financial transactions (Notes 7 and 33)
- b. Investments in mainland China: Table 7 (attached)
- c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (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 are consistent with the policies mentioned in Note 4.

For the nine months ended September 30, 2018 and 2017, financial information of segments is listed below:

	<b>For the Nine Months Ended September 30, 2018</b>			
	<b>Air Transportation</b>	<b>Others</b>	<b>Adjustments and Write-offs</b>	<b>Total</b>
Operating revenue	<u>\$ 123,973,681</u>	<u>\$ 7,656,010</u>	<u>\$ (5,422,065)</u>	<u>\$ 126,207,626</u>
Operation profit and loss	<u>\$ 2,029,945</u>	<u>\$ 1,080,789</u>	<u>\$ (17,458)</u>	\$ 3,093,276
Interest revenue				226,694
Investment income accounted for using the equity method				244,917
Revenue				62,277
Financial costs				(1,015,475)
Expenses				<u>(325,294)</u>
Gain before income tax				<u>\$ 2,286,395</u>
Identifiable assets	<u>\$ 151,587,006</u>	<u>\$ 10,973,672</u>	<u>\$ -</u>	\$ 162,560,678
Investments accounted for using the equity method				2,215,025
Assets				<u>61,296,997</u>
Total assets				<u>\$ 226,072,700</u>

	<b>For the Nine Months Ended September 30, 2017</b>			
	<b>Air Transportation</b>	<b>Others</b>	<b>Adjustments and Write-offs</b>	<b>Total</b>
Operating revenue	<u>\$ 113,397,815</u>	<u>\$ 5,861,685</u>	<u>\$ (4,763,718)</u>	<u>\$ 114,495,782</u>
Operation profit and loss	<u>\$ 5,402,690</u>	<u>\$ 732,649</u>	<u>\$ -</u>	\$ 6,135,339
Interest revenue				156,833
Investment income accounted for using the equity method				385,762
Revenue				463,344
Financial costs				(1,013,780)
Expenses				<u>(4,129,910)</u>
Loss before income tax				<u>\$ 1,997,588</u>
Identifiable assets	<u>\$ 140,095,339</u>	<u>\$ 8,884,962</u>	<u>\$ -</u>	\$ 148,980,301
Investments accounted for using the equity method				2,678,739
Assets				<u>71,615,762</u>
Total assets				<u>\$ 223,274,802</u>

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018  
(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	\$ 11,488,592	\$ 3,850,000	\$ 3,850,000	\$ 2,661,850	\$ -	6.70%	\$ 28,721,481	Yes	No	No
		Taiwan Air Cargo Terminal	54% subsidiary	11,488,592	1,080,000	1,080,000	-	-	1.88%	28,721,481	Yes	No	No
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,488,592	1,081,792	1,076,427	415,931	-	1.87%	28,721,481	Yes	No	No
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,488,592	2,000,000	2,000,000	302,097	-	3.48%	28,721,481	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

SEPTEMBER 30, 2018

(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	September 30, 2018				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. - common shares	-	Financial assets at fair value through other comprehensive income - noncurrent	1,359,368	\$ 77,075	13.59	\$ 84,783	-
	Everest Investment Holdings Ltd. - preferred shares	-	Financial assets at fair value through other comprehensive income - noncurrent	135,937	7,708	-	-	Note 2
	Chung Hua Express Co.	-	Financial assets at fair value through other comprehensive income - noncurrent	1,100,000	23,582	11.00	23,582	-
	Jardine Air Terminal Services	-	Financial assets at fair value through profit or loss - current	12,000,000	-	15.00	-	-
	The Grand Hi Lai Hotel	-	Financial assets at fair value through profit or loss - current	4,021	-	0.02	-	-
Mandarin Airlines	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - noncurrent	2,074,628	19,190	-	19,190	-
	<u>Beneficial certificates</u> Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	30,459	-	30,459	-
Cal-Asia Investment	<u>Shares</u> Taikoo (Xiamen) Landing Gear Services	-	Financial assets at fair value through profit or loss - current	-	-	2.59	-	-
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at fair value through other comprehensive income - noncurrent	-	32,790	5.45	32,790	-
Sabre Travel Network (Taiwan)	<u>Beneficial certificates</u> Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	9,627,238	39,005	-	39,005	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,321,858	17,483	-	17,483	-
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,607,058	1,511	-	1,511	-
Taiwan Airport Services	<u>Shares</u> TransAsia Airways	-	Financial assets at fair value through profit or loss - current	2,277,786	-	0.40	-	-
Hwa Hsia	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - noncurrent	814,152	7,531	-	7,531	-
	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,715	-	4,715	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2018				Note
				Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Kaohsiung Catering Services	<u>Beneficial certificates</u> Prudential Financial Money Market Fund	-	Financial assets at fair value through profit or loss - current	7,939,173	\$ 123,794	-	\$ 123,794	-

Note 1: This table only lists financial assets that are IFRS 9 regulated.

Note 2: Total fair value of Everest Investment Holdings Ltd.'s ordinary and preferred shares is \$84,783 thousand.

(Concluded)

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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

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

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

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

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



## CHINA AIRLINES, LTD. AND 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 NINE MONTHS ENDED SEPTEMBER 30, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd.	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 438,877	0.43	30 days	\$ -	-	\$ (48,297)	(5.66)	-
	Taiwan Airport Services	Subsidiary	Purchase	324,042	0.32	40 days	-	-	(73,677)	(8.64)	-
	Mandarin Airlines	Subsidiary	Sale	(1,790,877)	(1.62)	2 months	-	-	421,694	4.20	-
	Mandarin Airlines	Subsidiary	Purchase	178,825	0.18	2 months	-	-	(297,548)	(34.89)	-
	Taoyuan International Airport Services	Subsidiary	Purchase	925,088	0.91	40 days	-	-	(352,387)	(41.32)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,347,757	1.32	90 days	-	-	(460,480)	(54.00)	-
	Cal Park	Subsidiary	Purchase	173,466	0.17	2 months	-	-	(121,426)	(14.24)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	300,416	0.30	60 days	-	-	(78,512)	(9.21)	-
	Hwa Hsia	Subsidiary	Purchase	252,926	0.25	2 months	-	-	(51,462)	(6.03)	-
	Tigerair Taiwan Co., Ltd.	Subsidiary	Sale	(258,372)	(0.23)	1 months	-	-	41,080	0.41	-
	Tigerair Taiwan Co., Ltd.	Subsidiary	Purchase	105,345	0.10	1 months	-	-	(35,497)	(4.16)	-
	Eastern United International Logistics (Holdings) Ltd.	Equity-method investee	Purchase	166,327	0.16	2 months	-	-	(21,689)	(2.54)	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd	Equity-method investee	Purchase	135,263	0.13	30 days	-	-	(30,256)	(3.55)	-
	Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	113,250	2.01	1 months	-	-	(27,204)	(2.23)
Tigerair Taiwan Co., Ltd.	Taoyuan International Airport Services	Same parent company	Purchase	132,751	2.42	1 months	-	-	(15,593)	(2.61)	-

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

SEPTEMBER 30, 2018

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 421,694	Note	\$ -	-	\$ 235,308	\$ -
Mandarin Airlines	China Airlines	Parent company	297,548	Note	-	-	271,868	-
China Pacific Catering Services	China Airlines	Investor in equity-method	460,480	3.99	-	-	159,308	-
Taoyuan International Airport Service	China Airlines	Parent company	352,387	3.48	-	-	203,971	-
Cal Park	China Airlines	Parent company	121,426	3.81	-	-	121,426	-

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 NINE MONTHS ENDED SEPTEMBER 30, 2018  
(New Taiwan Dollars/U.S. Dollars/Hong Kong Dollars/Japanese Yen in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2018			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				September 30, 2018	December 31, 2017	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	\$ 1,505,704	\$ 1,403	\$ 1,403	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,255,109	45,137	42,425	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,477,603	255,839	138,153	-
	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	1,250,359	35,107	35,107	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	740,529	336,599	171,665	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	745,705	236,854	116,058	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	469,891	21,870	21,870	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	413,204	144,167	135,415	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	498,423	4,610	922	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	275,665	100,185	47,437	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	140,240	21,494,637	53.67	623,309	184,464	99,002	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	443,800	7,834	7,834	-
	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	164,390	21,930	12,062	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	85,844	12,948	12,948	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,163	(345)	(345)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	22,229	(8,234)	(4,199)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,629	3,668	917	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	1,843,935	1,020,897	918,807	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	1,158,814	(72,735)	(72,735)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Composite repair and manufacturing business	2,450	2,450	245,000	49.00	2,361	(79)	(38)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	204,882	1,020,897	102,090	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,207	100,185	1,079	-
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	45,168	10,042	3,515	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	377,898	20,308	20,308	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd	Kaohsiung, Taiwan	Catering business	10,200	-	1,020,000	51.00	7,867	-	-	Note 4

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

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

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

Note 4: Investee acquired by merger.

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

## INVESTMENTS IN MAINLAND CHINA

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

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

## China Airlines

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of September 30, 2018	Accumulated Inward Remittance of Earnings as of September 30, 2018
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 995,477 (RMB 224,480)	Indirect (Note 1)	\$ 128,011 (US\$ 4,186)	\$ -	\$ -	\$ 128,011 (US\$ 4,186)	\$ 63,821 (RMB 13,878)	14	\$ 8,530 (RMB 1,943)	\$ 243,315 (RMB 54,867)	\$ 85,680 (US\$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,084 (RMB 14,000)	Indirect (Note 1)	59,555 (US\$ 1,947)	-	-	59,555 (US\$ 1,947)	88,695 (RMB 19,286)	14	11,796 (RMB 2,700)	135,867 (RMB 30,637)	26,769 (US\$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,128,135 (US\$ 36,890)	Indirect (Note 1)	65,786 (US\$ 2,151)	-	-	65,786 (US\$ 2,151)	-	2.589	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	356,667 (US\$ 11,663)	Indirect (Note 1)	19,450 (US\$ 636)	-	-	19,450 (US\$ 636)	-	5.45	-	32,790 (RMB 7,394)	-

Accumulated Investment in Mainland China as of September 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$272,802 (US\$8,920)	\$661,663 (Note 3)	\$36,196,507 (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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of September 30, 2018	Accumulated Repatriation of Investment Income as of September 30, 2018
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 995,477 (RMB 224,480)	Indirect (Note 5)	\$ 122,886 (US\$ 4,018)	\$ -	\$ -	\$ 122,886 (US\$ 4,018)	\$ 63,821 (RMB 13,878)	14%	\$ 8,935 (RMB 1,943)	\$ 241,627 (RMB 54,487)	\$ 116,402 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,084 (RMB 14,000)	Indirect (Note 5)	58,922 (US\$ 1,927)	-	-	58,922 (US\$ 1,927)	88,695 (RMB 19,286)	14%	12,417 (RMB 2,700)	135,479 (RMB 30,551)	43,015 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$181,808 (US\$5,945)	\$181,808 (US\$5,945)	\$349,314 (Note 6)

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

Note 2: As of September 30, 2018, 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 NINE MONTHS ENDED SEPTEMBER 30, 2018  
(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	\$ 1,584,360	The same as ordinary transactions	1.26
		Mandarin Airlines	a	Other operating income	206,517	The same as ordinary transactions	0.16
		Tigerair Taiwan Ltd.	a	Other operating income	258,372	The same as ordinary transactions	0.20
		Taoyuan International Airport Service	a	Terminal and landing fees	925,088	The same as ordinary transactions	0.73
		Taiwan Airport Services	a	Terminal and landing fees	324,042	The same as ordinary transactions	0.26
		Hwa Hsia	a	Terminal and landing fees	252,926	The same as ordinary transactions	0.20
		Mandarin Airlines	a	Flight operation costs	178,825	The same as ordinary transactions	0.14
		Tigerair Taiwan Ltd.	a	Flight operation costs	105,345	The same as ordinary transactions	0.08
		China Pacific Catering Services	a	Other operating cost	438,877	The same as ordinary transactions	0.35
		Cal Park	a	Other operating cost	173,466	The same as ordinary transactions	0.14
		Mandarin Airlines	a	Accounts receivable - related parties	421,694	The same as ordinary transactions	0.18
		Mandarin Airlines	a	Accounts payable - related parties	297,548	The same as ordinary transactions	0.13
		Taoyuan International Airport Service	a	Accounts payable - related parties	352,387	The same as ordinary transactions	0.15
		Cal Park	a	Accounts payable - related parties	121,426	The same as ordinary transactions	0.05
		Mandarin Airlines	a	Bonds payable - noncurrent	250,000	The same as ordinary transactions	0.11
		Kaohsiung Catering Services	a	Passenger service cost	300,416	The same as ordinary transactions	0.24
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	438,877	The same as ordinary transactions	0.35
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	178,825	The same as ordinary transactions	0.14
		China Airlines, Ltd.	b	Flight operation costs	1,584,360	The same as ordinary transactions	1.26
		Taiwan Airport Services	c	Flight operation costs	113,250	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Operating expense	206,517	The same as ordinary transactions	0.16
		China Airlines, Ltd.	b	Accounts receivable - related parties	297,548	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes and accounts payable - related parties	421,694	The same as ordinary transactions	0.18
3	Taoyuan International Airport Services	Tigerair Taiwan Ltd.	c	Airport service revenue	132,751	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Airport service revenue	925,088	The same as ordinary transactions	0.73
		China Airlines, Ltd.	b	Accounts receivable - related parties	352,387	The same as ordinary transactions	0.15

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
4	Taiwan Airport Services	China Airlines, Ltd. Mandarin Airlines	b c	Operating revenue	\$ 324,042	The same as ordinary transactions	0.26
				Operating revenue	113,250	The same as ordinary transactions	0.09
5	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	252,926	The same as ordinary transactions	0.20
6	Cal Park Cal Park	China Airlines, Ltd. China Airlines, Ltd.	b b	Operating revenue	173,466	The same as ordinary transactions	0.14
				Accounts receivable - related parties	121,426	The same as ordinary transactions	0.05
7	Tigerair Taiwan Ltd. Tigerair Taiwan Ltd. Tigerair Taiwan Ltd.	China Airlines, Ltd. China Airlines, Ltd. Taoyuan International Airport Service	b b c	Operating expense	258,372	The same as ordinary transactions	0.20
				Operating revenue	105,345	The same as ordinary transactions	0.08
				Flight operation costs	132,751	The same as ordinary transactions	0.11
8	Kaohsiung Catering Services	China Airlines, Ltd.	b	Operating revenue	300,416	The same as ordinary transactions	0.24

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

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

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

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

(Concluded)