

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2021 and 2020 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 (collectively, the "Group") as of September 30, 2021 and 2020, the related consolidated statements of comprehensive income for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, the consolidated statements of changes in equity and cash flows for the nine months 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\$14,102,966 thousand and NT\$11,025,331 thousand, which represented 5.11% and 3.88% of the consolidated total assets as of September 30, 2021 and 2020, respectively; and for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, the total revenue of these subsidiaries were NT\$44,914 thousand, NT\$175,653 thousand, NT\$71,470 thousand and NT\$1,813,945 thousand, which represented 0.13%, 0.66%, 0.08% and 2.12% of the consolidated total revenues, respectively.

Scope of Review

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

Basis for Qualified Conclusion

As disclosed in Notes 13 and 14 to the consolidated financial statements, the financial statements of some non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph and some investments accounted for using the equity method were not reviewed. As of September 30, 2021 and 2020, the combined total assets of these non-significant subsidiaries were NT\$20,132,953 thousand and NT\$21,447,628 thousand, respectively, representing 7.30% and 7.55%, respectively, of the consolidated total assets, and combined total liabilities of these non-significant subsidiaries were NT\$11,194,422 thousand and NT\$11,453,273 thousand, respectively, representing 5.34% and 5.07%, respectively, of the consolidated total liabilities; for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, the amounts of the combined comprehensive income (loss) of these non-significant subsidiaries were NT\$4,506 thousand, NT\$(126,107) thousand, NT\$(228,649) thousand and NT\$(481,583) thousand, respectively, representing 0.17%, 37.52%, (19.58%) and 28.41%, respectively, of the consolidated total comprehensive income. As of September 30, 2021 and 2020, the aforementioned investments accounted for using the equity method were NT\$1,576,556 thousand and NT\$2,009,318 thousand, respectively; and for the three months ended and for the nine months ended September 30, 2021 and 2020, the amounts of the Group's share of the profit of such investments accounted for using the equity method were NT\$(85,146) thousand and NT\$(57,013) thousand, NT\$(382,599) thousand and NT\$(176,235) 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, 2021 and 2020, and its consolidated financial performance for the three months ended September 30, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the nine-month periods ended September 30, 2021 and 2020 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 4, 2021

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, 2021 (Reviewed)		December 31, 2020 (Audited)		September 30, 2020 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6 and 31)	\$ 36,894,146	13	\$ 27,125,937	10	\$ 26,638,850	10
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	169,479	-	274,761	-	491,271	-
Financial assets at amortized cost - current (Notes 4, 9 and 31)	1,390,573	1	6,551,693	2	5,458,047	2
Financial assets for hedging - current (Notes 4, 6 and 31)	2,248,631	1	7,613,636	3	9,505,860	3
Notes and accounts receivable, net (Notes 4, 5, 10 and 31)	11,917,344	4	9,697,511	4	8,418,269	3
Notes and accounts receivable - related parties (Notes 31 and 32)	2,401	-	1,667	-	1,537	-
Other receivables (Note 31)	616,732	-	801,134	-	640,205	-
Current tax assets (Notes 4 and 28)	58,957	-	67,549	-	66,991	-
Inventories, net (Notes 4 and 11)	8,815,952	3	8,788,105	3	8,048,111	3
Non-current assets held for sale (Notes 4, 5 and 12)	89,956	-	89,296	-	79,143	-
Other current assets (Note 18)	1,053,770	1	861,179	-	1,864,090	1
Total current assets	<u>63,257,941</u>	<u>23</u>	<u>61,872,468</u>	<u>22</u>	<u>61,212,374</u>	<u>22</u>
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 31)	91,180	-	163,746	-	122,512	-
Financial assets at amortized cost (Notes 4, 9 and 31)	515,504	-	311,596	-	388,270	-
Investments accounted for using the equity method (Notes 4 and 14)	1,576,556	1	1,970,802	1	2,009,318	1
Property, plant and equipment (Notes 4, 5, 15 and 33)	132,002,259	48	141,481,694	50	134,897,356	47
Right-of-use assets (Notes 4, 21 and 33)	56,761,245	21	59,861,537	21	62,866,981	22
Investment properties (Notes 4 and 16)	2,074,597	1	2,074,798	1	2,074,864	1
Other intangible assets (Notes 4 and 17)	1,155,876	-	1,076,351	-	1,088,194	-
Deferred income tax asset (Notes 4, 5 and 28)	6,646,240	2	6,028,200	2	5,678,175	2
Other non-current assets (Notes 18, 21, 31 and 33)	11,805,438	4	9,352,892	3	13,686,945	5
Total non-current assets	<u>212,628,895</u>	<u>77</u>	<u>222,321,616</u>	<u>78</u>	<u>222,812,615</u>	<u>78</u>
TOTAL	<u>\$ 275,886,836</u>	<u>100</u>	<u>\$ 284,194,084</u>	<u>100</u>	<u>\$ 284,024,989</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Notes 19 and 31)	\$ 1,952,000	1	\$ 1,932,000	1	\$ 1,932,000	1
Short-term bills payable (Note 19)	-	-	8,088,882	3	8,468,278	3
Financial liabilities for hedging - current (Notes 4, 21 and 31)	8,405,330	3	8,129,752	3	8,516,507	3
Contract liabilities - current (Notes 4, 5 and 23)	3,271,347	1	3,569,360	1	4,394,318	1
Notes and accounts payable (Note 31)	1,280,033	-	1,354,237	1	2,072,167	1
Notes and accounts payable - related parties (Notes 31 and 32)	112,507	-	128,567	-	109,953	-
Other payables (Notes 22 and 31)	9,981,557	4	8,306,257	3	8,480,982	3
Current tax liabilities (Notes 4 and 28)	903,585	-	216,602	-	178,279	-
Lease liabilities - current (Notes 4 and 21)	2,640,078	1	2,525,957	1	2,499,005	1
Provisions - current (Notes 4, 24 and 31)	2,775,946	1	164,800	-	221,320	-
Bonds payable and put options of convertible bonds - current portion (Notes 4, 20 and 31)	1,300,000	-	11,982,859	4	11,562,586	4
Loans and debts - current portion (Notes 19, 31 and 33)	13,808,717	5	15,234,374	5	16,468,455	6
Other current liabilities (Note 31)	1,633,453	1	1,016,068	-	1,197,423	-
Total current liabilities	<u>48,064,553</u>	<u>17</u>	<u>62,649,715</u>	<u>22</u>	<u>66,101,273</u>	<u>23</u>
NON-CURRENT LIABILITIES						
Financial liabilities for hedging - non-current (Notes 4, 21 and 31)	27,728,396	10	32,455,333	11	35,774,370	13
Bonds payable - non-current (Notes 4, 20 and 31)	16,566,263	6	10,300,000	4	11,600,000	4
Loans and debts - non-current (Notes 19, 31 and 33)	76,614,499	28	77,288,330	27	72,681,739	26
Contract liabilities - non-current (Notes 4 and 23)	916,379	-	1,761,104	1	1,998,350	1
Provisions - non-current (Notes 4, 24 and 31)	14,962,826	6	14,369,486	5	13,565,971	5
Current tax liabilities - non-current (Notes 4 and 28)	43,590	-	87,181	-	101,711	-
Deferred tax liabilities (Notes 4 and 28)	960,631	-	1,023,084	-	823,805	-
Lease liabilities - non-current (Notes 4 and 21)	13,267,766	5	13,279,792	5	13,530,522	5
Accrued pension costs (Notes 4, 5 and 25)	9,735,660	4	9,737,741	4	9,308,126	3
Other non-current liabilities (Note 31)	590,122	-	530,745	-	470,289	-
Total non-current liabilities	<u>161,386,132</u>	<u>59</u>	<u>160,832,796</u>	<u>57</u>	<u>159,854,883</u>	<u>57</u>
Total liabilities	<u>209,450,685</u>	<u>76</u>	<u>223,482,511</u>	<u>79</u>	<u>225,956,156</u>	<u>80</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)						
Share capital	57,404,844	21	54,209,846	19	54,209,846	19
Capital surplus	1,772,185	1	1,187,327	-	1,187,327	-
Retained earnings (accumulated deficits)						
Unappropriated retained earnings (accumulated deficits)	1,450,737	-	(350,581)	-	(2,023,555)	(1)
Other equity	2,694,122	1	2,543,766	1	1,876,805	1
Treasury shares	(30,875)	-	(30,875)	-	(30,875)	-
Total equity attributable to owners of the Company	<u>63,291,013</u>	<u>23</u>	<u>57,559,483</u>	<u>20</u>	<u>55,219,548</u>	<u>19</u>
NON-CONTROLLING INTERESTS (Note 26)	<u>3,145,138</u>	<u>1</u>	<u>3,152,090</u>	<u>1</u>	<u>2,849,285</u>	<u>1</u>
Total equity	<u>66,436,151</u>	<u>24</u>	<u>60,711,573</u>	<u>21</u>	<u>58,068,833</u>	<u>20</u>
TOTAL	<u>\$ 275,886,836</u>	<u>100</u>	<u>\$ 284,194,084</u>	<u>100</u>	<u>\$ 284,024,989</u>	<u>100</u>

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

(With Deloitte & Touche auditors' review report dated November 4, 2021)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUE (Notes 4, 27 and 32)	\$ 34,474,002	100	\$ 26,611,698	100	\$ 91,674,640	100	\$ 85,484,350	100
COSTS (Notes 4, 11, 17, 21, 24, 25, 27 and 32)	<u>28,907,108</u>	<u>84</u>	<u>25,408,645</u>	<u>95</u>	<u>81,606,537</u>	<u>89</u>	<u>79,395,609</u>	<u>93</u>
GROSS PROFIT	5,566,894	16	1,203,053	5	10,068,103	11	6,088,741	7
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>1,581,796</u>	<u>5</u>	<u>1,560,622</u>	<u>6</u>	<u>5,345,976</u>	<u>6</u>	<u>6,669,400</u>	<u>8</u>
OPERATING PROFIT (LOSS)	<u>3,985,098</u>	<u>11</u>	<u>(357,569)</u>	<u>(1)</u>	<u>4,722,127</u>	<u>5</u>	<u>(580,659)</u>	<u>(1)</u>
NON-OPERATING INCOME AND EXPENSES								
Other income (Note 27)	139,193	1	182,503	1	389,739	-	545,707	1
Other gains and losses (Notes 15 and 27)	(314,415)	(1)	89,695	-	(1,608,211)	(2)	19,407	-
Finance costs (Notes 27 and 31)	(572,520)	(2)	(750,676)	(3)	(1,850,981)	(2)	(2,367,841)	(3)
Share of the profit or loss of associates and joint ventures (Note 14)	<u>(85,146)</u>	<u>-</u>	<u>(57,013)</u>	<u>-</u>	<u>(382,599)</u>	<u>-</u>	<u>(176,235)</u>	<u>-</u>
Total non-operating income and expenses	<u>(832,888)</u>	<u>(2)</u>	<u>(535,491)</u>	<u>(2)</u>	<u>(3,452,052)</u>	<u>(4)</u>	<u>(1,978,962)</u>	<u>(2)</u>
PROFIT (LOSS) BEFORE INCOME TAX	3,152,210	9	(893,060)	(3)	1,270,075	1	(2,559,621)	(3)
INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 28)	<u>351,690</u>	<u>1</u>	<u>(75,767)</u>	<u>-</u>	<u>171,768</u>	<u>-</u>	<u>(184,376)</u>	<u>-</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>2,800,520</u>	<u>8</u>	<u>(817,293)</u>	<u>(3)</u>	<u>1,098,307</u>	<u>1</u>	<u>(2,375,245)</u>	<u>(3)</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified subsequently to profit or loss:								
Gain (loss) on hedging instruments subject to basis adjustment	(8,005)	-	(213,217)	(1)	(55,461)	-	(224,034)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	(60,447)	-	(11,473)	-	(72,433)	-	(85,280)	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Note 28)	<u>12,386</u>	<u>-</u>	<u>44,939</u>	<u>-</u>	<u>25,075</u>	<u>-</u>	<u>60,960</u>	<u>-</u>
	<u>(56,066)</u>	<u>-</u>	<u>(179,751)</u>	<u>(1)</u>	<u>(102,819)</u>	<u>-</u>	<u>(248,354)</u>	<u>-</u>

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translation of the financial statements of foreign operations (Notes 4 and 26)	\$ (1,610)	-	\$ (13,055)	-	\$ (34,560)	-	\$ (70,055)	-
Gain (loss) on hedging instruments not subject to basis adjustment (Notes 4, 21, 26 and 31)	(189,870)	-	838,066	3	250,906	-	1,231,041	1
Income tax related to items that may be reclassified subsequently to profit or loss (Note 28)	<u>38,185</u>	<u>-</u>	<u>(164,068)</u>	<u>-</u>	<u>(43,812)</u>	<u>-</u>	<u>(232,713)</u>	<u>-</u>
	<u>(153,295)</u>	<u>-</u>	<u>660,943</u>	<u>3</u>	<u>172,534</u>	<u>-</u>	<u>928,273</u>	<u>1</u>
Other comprehensive income (loss) for the period, net of income tax	<u>(209,361)</u>	<u>-</u>	<u>481,192</u>	<u>2</u>	<u>69,715</u>	<u>-</u>	<u>679,919</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ 2,591,159</u>	<u>8</u>	<u>\$ (336,101)</u>	<u>(1)</u>	<u>\$ 1,168,022</u>	<u>1</u>	<u>\$ (1,695,326)</u>	<u>(2)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	\$ 2,917,304	8	\$ (707,937)	(3)	\$ 1,555,376	2	\$ (2,021,822)	(2)
Non-controlling interests	<u>(116,784)</u>	<u>-</u>	<u>(109,356)</u>	<u>-</u>	<u>(457,069)</u>	<u>(1)</u>	<u>(353,423)</u>	<u>(1)</u>
	<u>\$ 2,800,520</u>	<u>8</u>	<u>\$ (817,293)</u>	<u>(3)</u>	<u>\$ 1,098,307</u>	<u>1</u>	<u>\$ (2,375,245)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	\$ 2,708,171	8	\$ (229,105)	(1)	\$ 1,626,126	2	\$ (1,341,250)	(2)
Non-controlling interests	<u>(117,012)</u>	<u>-</u>	<u>(106,996)</u>	<u>-</u>	<u>(458,104)</u>	<u>(1)</u>	<u>(354,076)</u>	<u>-</u>
	<u>\$ 2,591,159</u>	<u>8</u>	<u>\$ (336,101)</u>	<u>(1)</u>	<u>\$ 1,168,022</u>	<u>1</u>	<u>\$ (1,695,326)</u>	<u>(2)</u>
EARNINGS (LOSS) PER SHARE (NEW TAIWAN DOLLARS; Note 29)								
Basic	<u>\$ 0.51</u>		<u>\$ (0.13)</u>		<u>\$ 0.28</u>		<u>\$ (0.37)</u>	
Diluted	<u>\$ 0.48</u>		<u>\$ (0.13)</u>		<u>\$ 0.26</u>		<u>\$ (0.37)</u>	

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

(With Deloitte & Touche auditors' review report dated November 4, 2021)

(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											
	Retained Earnings					Other Equity		Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income					
BALANCE AT JANUARY 1, 2020	\$ 54,209,846	\$ 2,488,907	\$ 466,416	\$ 12,967	\$ (1,777,225)	\$ (54,707)	\$ 107,262	\$ 1,143,678	\$ (43,372)	\$ 56,553,772	\$ 3,578,345	\$ 60,132,117
Issuance of employee share options by subsidiaries	-	172	-	-	-	-	-	-	-	172	52	224
Appropriation of 2019 earnings	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	(466,416)	-	466,416	-	-	-	-	-	-	-
Special reserve	-	-	-	(12,967)	12,967	-	-	-	-	-	-	-
Capital surplus used to cover accumulated deficit	-	(1,297,843)	-	-	1,297,843	-	-	-	-	-	-	-
Net loss for the nine months ended September 30, 2020	-	-	-	-	(2,021,822)	-	-	-	-	(2,021,822)	(353,423)	(2,375,245)
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	(55,231)	(69,127)	804,930	-	680,572	(653)	679,919
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	-	(2,021,822)	(55,231)	(69,127)	804,930	-	(1,341,250)	(354,076)	(1,695,326)
Disposal of treasury shares	-	(3,909)	-	-	(1,734)	-	-	-	12,497	6,854	-	6,854
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(375,036)	(375,036)
BALANCE AT SEPTEMBER 30, 2020	\$ 54,209,846	\$ 1,187,327	\$ -	\$ -	\$ (2,023,555)	\$ (109,938)	\$ 38,135	\$ 1,948,608	\$ (30,875)	\$ 55,219,548	\$ 2,849,285	\$ 58,068,833
BALANCE AT JANUARY 1, 2021	\$ 54,209,846	\$ 1,187,327	\$ -	\$ -	\$ (350,581)	\$ (134,252)	\$ 71,359	\$ 2,606,659	\$ (30,875)	\$ 57,559,483	\$ 3,152,090	\$ 60,711,573
Basis adjustment to gain (loss) on hedging instruments	-	-	-	-	-	-	-	79,606	-	79,606	-	79,606
Appropriation of 2020 earnings	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus used to cover accumulated deficit	-	(350,581)	-	-	350,581	-	-	-	-	-	-	-
Issuance of employee share options by the subsidiaries	-	540	-	-	-	-	-	-	-	540	126	666
Change in percentage of ownership interests in subsidiaries	-	-	-	-	(104,639)	-	-	-	-	(104,639)	575,753	471,114
Net profit (loss) for the nine months ended September 30, 2021	-	-	-	-	1,555,376	-	-	-	-	1,555,376	(457,069)	1,098,307
Other comprehensive income (loss) for the nine months ended September 30, 2021, net of income tax	-	-	-	-	-	(26,788)	(58,451)	155,989	-	70,750	(1,035)	69,715
Total comprehensive income (loss) for the nine months ended September 30, 2021	-	-	-	-	1,555,376	(26,788)	(58,451)	155,989	-	1,626,126	(458,104)	1,168,022
Equity component of convertible bonds issued by the Company	-	188,862	-	-	-	-	-	-	-	188,862	-	188,862
Convertible bonds converted to ordinary shares	3,194,998	746,037	-	-	-	-	-	-	-	3,941,035	-	3,941,035
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(124,727)	(124,727)
BALANCE AT SEPTEMBER 30, 2021	\$ 57,404,844	\$ 1,772,185	\$ -	\$ -	\$ 1,450,737	\$ (161,040)	\$ 12,908	\$ 2,842,254	\$ (30,875)	\$ 63,291,013	\$ 3,145,138	\$ 66,436,151

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

(With Deloitte & Touche auditors' review report dated November 4, 2021)

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	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 1,270,075	\$ (2,559,621)
Adjustments for:		
Depreciation expenses	22,528,432	23,898,705
Amortization expenses	165,970	152,758
Expected credit loss recognized on trade receivables	28,606	5,791
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(13)	(2,234)
Interest income	(97,677)	(242,761)
Dividend income	(11,607)	(22,516)
Share of loss (profit) of associates and joint ventures	382,599	176,235
Loss (gain) on disposal of property, plant and equipment	1,023,694	(13,466)
Loss on disposal of investments	540	-
Loss on inventory and property, plant and equipment	850,684	388,460
Compensation costs of employee share options	666	224
Finance costs	1,850,981	2,367,841
Net gain on foreign currency exchange	(829,452)	(621,249)
Loss on sale and leaseback transactions	342,080	-
Recognition of provisions	4,575,939	4,730,275
Others	(3,538)	3,533
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	105,643	23,905
Financial liabilities at fair value through profit or loss	-	(11,749)
Notes and accounts receivable	(2,301,224)	(140,637)
Accounts receivable - related parties	(68,763)	867,396
Other receivables	305,753	110,725
Inventories	43,362	663,251
Other current assets	(129,676)	1,528,637
Notes and accounts payable	(111,976)	61,595
Accounts payable - related parties	31,311	(1,073,199)
Other payables	1,617,657	(4,520,964)
Contract liabilities	(1,142,865)	(16,904,416)
Provisions	(1,142,874)	(962,948)
Other current liabilities	670,404	(2,628,167)
Accrued pension liabilities	(2,080)	(126,909)
Other liabilities	5,556	(33,033)
Cash generated from operations	29,958,207	5,115,462
Interest received	90,811	232,156
Dividends received	11,607	63,817

(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	
	2021	2020
Interest paid	\$ (1,707,710)	\$ (2,477,852)
Income tax paid	<u>(257,444)</u>	<u>(191,653)</u>
Net cash generated from operating activities	<u>28,095,471</u>	<u>2,741,930</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at amortized cost	(2,505,043)	(5,398,640)
Disposal of financial assets at amortized cost	7,646,697	1,694,234
Purchase of financial assets for hedging	(3,566,844)	(9,667,026)
Proceeds from sale of financial assets for hedging	8,888,275	-
Payments for property, plant and equipment	(1,635,174)	(858,411)
Proceeds from disposal of property, plant and equipment	394,747	39,076
Increase in refundable deposits	(84,030)	(63,471)
Decrease in refundable deposits	92,839	100,018
Increase in prepayments for equipment	(11,860,667)	(3,983,167)
Increase in other intangible assets	(125,483)	(57,715)
Increase in restricted assets	(282,691)	(52,410)
Net cash inflow on disposal of subsidiary	<u>942</u>	<u>-</u>
Net cash used in investing activities	<u>(3,036,432)</u>	<u>(18,247,512)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debts	20,000	1,552,000
(Decrease) increase in short-term bill payable	(8,088,882)	8,068,279
Proceeds from issuance of bonds payable	4,500,000	-
Repayments of bonds payable	(5,000,000)	(8,950,000)
Proceeds from long-term debts	8,023,590	65,830,527
Repayments of long-term debts	(10,268,775)	(43,944,169)
Repayments of the principal portion of lease liabilities	(7,754,584)	(8,153,315)
Proceeds of guarantee deposits received	266,221	92,983
Refunds of guarantee deposits received	(201,638)	(137,738)
Proceeds from sale and leaseback transactions	2,810,098	-
Proceeds from issuance of ordinary shares of subsidiaries	471,114	-
Cash dividends paid to non-controlling interests	(124,727)	(375,036)
Proceeds from disposal of treasury shares	<u>-</u>	<u>6,854</u>
Net cash (used in) generated from financing activities	<u>(15,347,583)</u>	<u>13,990,385</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>56,753</u>	<u>(305,481)</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	
	2021	2020
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 9,768,209	\$ (1,820,678)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>27,125,937</u>	<u>28,459,528</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 36,894,146</u>	<u>\$ 26,638,850</u>

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

(With Deloitte & Touche auditors' review report dated November 4, 2021)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

The major shareholders of the Company are China Aviation Development Foundation (“CADF”) and National Development Fund (“NDF”), Executive Yuan. As of September 30, 2021, December 31, 2020 and September 30, 2020, CADF and NDF held a combined 41.58%, 44.03% and 44.03%, respectively of the Company’s shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) were approved by the board of directors and authorized for issue on November 4, 2021.

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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The application of the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 2)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 3)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 4)

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

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except that deferred taxes will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the policies listed below, the accounting policies adopted for these consolidated financial statements are the same as those of for the consolidated financial statements for the year ended December 31, 2020.

Statement of Compliance

These 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 Preparation

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

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

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

Basis of Consolidation

The consolidated financial statements reporting principles are the same as those in the consolidated financial statements for the year ended December 31, 2020.

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.

Lease

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2022, that results in the revised consideration for the lease substantially the same as, or less than, the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to rent concessions for the abovementioned lease contracts, and therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occurs, and makes a corresponding adjustment to the lease liability.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments and key sources of estimation uncertainty for these interim consolidated financial statements are the same as those applied for the consolidated financial statements for the year ended December 31, 2020.

6. CASH AND CASH EQUIVALENTS

	September 30, 2021	December 31, 2020	September 30, 2020
Cash on hand and revolving fund	\$ 384,002	\$ 333,677	\$ 102,243
Checking accounts and demand deposits	18,447,813	17,690,186	12,480,737
Cash equivalents			
Time deposits with original maturities of less than three months	14,887,299	6,980,493	7,147,612
Repurchase agreements collateralized by bonds	<u>3,175,032</u>	<u>2,121,581</u>	<u>6,908,258</u>
	<u>\$ 36,894,146</u>	<u>\$ 27,125,937</u>	<u>\$ 26,638,850</u>

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

	September 30, 2021	December 31, 2020	September 30, 2020
Bank balance	0%-1.9%	0%-1.9%	0%-1.90%
Time deposits with original maturities of less than three months	0.07%-0.53%	0.24%-2.20%	0.28%-2.20%
Repurchase agreements collateralized by bonds	0.2%-0.41%	0.22%-0.55%	0.28%-0.65%

The Group designated some deposits denominated in USD and repurchase agreements collateralized by bonds as hedging instruments to avoid exchange rate fluctuations on final payments of aircraft orders and prepayments for equipment, and applied cash flow hedge accounting to hedge its foreign exchange exposure. The contract information is as follows:

	Maturity Date	Subject	Carrying Value
September 30, 2021	2021.10.6-2021.11.4	Financial assets for hedging - current	\$ 2,228,412
December 31, 2020	2021.1.4-2021.11.1	Financial assets for hedging - current	7,613,636
September 30, 2020	2020.10.8-2020.12.16	Financial assets for hedging - current	9,505,814

Impact on other comprehensive income (loss)

	Recognized in Other Comprehensive Income (Loss)
For the nine months ended September 30, 2021	\$ (55,461)
For the three months ended September 30, 2021	(8,005)

For the nine months ended September 30, 2021, the amount of hedge settlements recognized as prepayments for equipment was \$79,606 thousand.

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

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Financial assets - current</u>			
Financial assets mandatorily classified as at FVTPL			
Non-derivative financial assets			
Beneficial certificates	<u>\$ 169,479</u>	<u>\$ 274,761</u>	<u>\$ 491,271</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Non-current</u>			
Foreign investments			
Unlisted shares	\$ 63,999	\$ 134,042	\$ 100,161
Domestic investments			
Unlisted shares	<u>27,181</u>	<u>29,704</u>	<u>22,351</u>
	<u>\$ 91,180</u>	<u>\$ 163,746</u>	<u>\$ 122,512</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Current</u>			
Time deposits with original maturities of more than 3 months	\$ 1,389,023	\$ 6,551,693	\$ 5,458,047
Government bonds	<u>1,550</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,390,573</u>	<u>\$ 6,551,693</u>	<u>\$ 5,458,047</u>
<u>Non-current</u>			
Time deposits with original maturities of more than 1 year	<u>\$ 515,504</u>	<u>\$ 311,596</u>	<u>\$ 388,270</u>

The range of interest rates for time deposits with original maturities of more than 3 months were approximately 0.21%-1.10%, 0.21%-1.90% and 0.40%-2.75% per annum as of September 30, 2021, December 31, 2020 and September 30, 2020, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE, NET

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Notes receivable</u>	\$ 3,031	\$ 655	\$ 14,711
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	12,140,066	9,903,008	8,615,272
Less: Allowance for impairment loss	<u>(225,753)</u>	<u>(206,152)</u>	<u>(211,714)</u>
	<u>11,914,313</u>	<u>9,696,856</u>	<u>8,403,558</u>
	<u>\$ 11,917,344</u>	<u>\$ 9,697,511</u>	<u>\$ 8,418,269</u>

The average credit period was 7 to 55 days. In determining the recoverability of a accounts receivable, the Group considered any change in the credit quality of the receivables 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 accounts receivable. The expected credit losses on accounts receivable are estimated using a provision matrix prepared 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 accounts receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the past due receivables. Where recoveries are made, these are recognized in profit or loss.

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

September 30, 2021

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.67%	2.98%	0.95%	0.00%	89.63%	
Gross carrying amount	\$ 11,915,147	\$ 56,648	\$ 6,501	\$ 941	\$ 160,829	\$ 12,140,066
Loss allowance (lifetime ECLs)	<u>(79,853)</u>	<u>(1,689)</u>	<u>(62)</u>	<u>-</u>	<u>(144,149)</u>	<u>(225,753)</u>
Amortized cost	<u>\$ 11,835,294</u>	<u>\$ 54,959</u>	<u>\$ 6,439</u>	<u>\$ 941</u>	<u>\$ 16,680</u>	<u>\$ 11,914,313</u>

December 31, 2020

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.14%	0.18%	1.20%	53.78%	92.74%	
Gross carrying amount	\$ 9,304,785	\$ 256,178	\$ 134,111	\$ 5,513	\$ 202,421	\$ 9,903,008
Loss allowance (lifetime ECLs)	<u>(13,391)</u>	<u>(470)</u>	<u>(1,608)</u>	<u>(2,965)</u>	<u>(187,718)</u>	<u>(206,152)</u>
Amortized cost	<u>\$ 9,291,394</u>	<u>\$ 255,708</u>	<u>\$ 132,503</u>	<u>\$ 2,548</u>	<u>\$ 14,703</u>	<u>\$ 9,696,856</u>

September 30, 2020

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.04%	0.38%	8.26%	67.05%	95.51%	
Gross carrying amount	\$ 7,946,934	\$ 314,390	\$ 137,376	\$ 38,874	\$ 177,698	\$ 8,615,272
Loss allowance (lifetime ECLs)	<u>(3,401)</u>	<u>(1,195)</u>	<u>(11,342)</u>	<u>(26,063)</u>	<u>(169,713)</u>	<u>(211,714)</u>
Amortized cost	<u>\$ 7,943,533</u>	<u>\$ 313,195</u>	<u>\$ 126,034</u>	<u>\$ 12,811</u>	<u>\$ 7,985</u>	<u>\$ 8,403,558</u>

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

	For the Nine Months Ended September 30	
	2021	2020
Balance at January 1	\$ 206,152	\$ 218,665
Add: Net remeasurement of loss allowance	28,606	5,791
Add: Amounts recovered	234	-
Less: Amounts written off	(9,237)	(12,735)
Foreign exchange gains and losses	<u>(2)</u>	<u>(7)</u>
Balance at September 30	<u>\$ 225,753</u>	<u>\$ 211,714</u>

11. INVENTORIES, NET

	September 30, 2021	December 31, 2020	September 30, 2020
Aircraft spare parts	\$ 7,771,779	\$ 7,898,482	\$ 7,263,449
Items for in-flight sale	618,107	627,437	624,082
Work in process - maintenance services	370,645	214,362	133,597
Others	<u>55,421</u>	<u>47,824</u>	<u>26,983</u>
	<u>\$ 8,815,952</u>	<u>\$ 8,788,105</u>	<u>\$ 8,048,111</u>

The operating costs for the nine months ended September 30, 2021 and 2020 included losses from inventory write-downs of \$279,354 thousand and \$196,286 thousand, respectively. And the operating costs for the three months ended September 30, 2021 and 2020 included (reversal of loss) losses from inventory write-downs of \$2,379 thousand and \$(933) thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

	September 30, 2021	December 31, 2020	September 30, 2020
Aircraft held for sale	\$ <u>89,956</u>	\$ <u>89,296</u>	\$ <u>79,143</u>

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

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

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)		
			September 30, 2021	December 31, 2020	September 30, 2020
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
	Dynasty Aerotech International Corp.	Cleaning of aircraft and maintenance of machine and equipment	100	100	100
	Yestrip	Travel business	-	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	97	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59	59
	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	82	81	77
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100	100
	Cal-Dynasty International	Kaohsiung Catering Services, Ltd.	In-flight catering	54	54
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: Based on the Group's proportion of ownership.

The Company has control over Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express despite its ownership of less than 50% and for the other subsidiaries, the Company had control and more than 50% of their voting shares. The above financial information of the subsidiaries for the nine months ended September 30, 2021 and 2020 was reported according to financial statements that were not reviewed by independent auditors, except for Mandarin Airlines and Tigerair Taiwan Co., Ltd.

To strengthen the capital structure of Tigerair Taiwan Co., Ltd., the board of directors of the Company approved the plan to issue ordinary shares for cash at \$25 per share on August 6, 2020. The Company subscribed for 47,228 thousand shares in October 2020 and 26,286 thousand shares in November 2020. The proportion of ownership of the Group increased to 81%. Because the shares were subscribed at a percentage different from its existing ownership percentage, the Company's retained earnings decreased by \$169,272 thousand.

Tigerair Taiwan Co., Ltd. planned to issue ordinary shares for cash to meet the needs for funds. The board of directors of the Company approved the plan to issue ordinary shares for cash at \$25 per share on August 5, 2021. The Company subscribed for 101,212 thousand shares in September 2021. The proportion of ownership of the Group increased to 82%. Because the shares were subscribed at a percentage different from its existing ownership percentage, the Company's retained earnings decreased by \$54,449 thousand.

To strengthen the capital structure of Mandarin Airlines, the board of directors of the Company approved the plan to issue ordinary shares for cash at \$10 per share on August 26, 2021. The Company subscribed for 199,677 thousand shares in September 2021. The proportion of ownership of the Group increased to 97%. Because the shares were subscribed at a percentage different from its existing ownership percentage, the Company's retained earnings decreased by \$50,190 thousand.

The liquidation of Yestrip Co., Ltd. was completed on April 22, 2021, and the Company recognized a liquidation loss of \$540 thousand.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2021	December 31, 2020	September 30, 2020
Investments in associates	\$ 880,464	\$ 1,079,852	\$ 1,137,076
Investments in jointly controlled entities	<u>696,092</u>	<u>890,950</u>	<u>872,242</u>
	<u>\$ 1,576,556</u>	<u>\$ 1,970,802</u>	<u>\$ 2,009,318</u>

a. Investments in associates

The investments in associates were as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Unlisted companies</u>			
China Aircraft Services	\$ 28,174	\$ 277,234	\$ 365,387
Dynasty Holidays	3,493	5,237	7,725
Airport Air Cargo Terminal (Xiamen)	501,171	476,219	461,308
Airport Air Cargo Service (Xiamen)	288,006	270,046	259,765
Eastern United International Logistics (Holdings) Ltd. (Hong Kong)	<u>59,620</u>	<u>51,116</u>	<u>42,891</u>
	<u>\$ 880,464</u>	<u>\$ 1,079,852</u>	<u>\$ 1,137,076</u>

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

Name of Associate	<u>Proportion of Ownership and Voting Rights</u>		
	September 30, 2021	December 31, 2020	September 30, 2020
China Aircraft Services	20%	20%	20%
Dynasty Holidays	20%	20%	20%
Airport Air Cargo Terminal (Xiamen)	28%	28%	28%
Airport Air Cargo Service (Xiamen)	28%	28%	28%
Eastern United International Logistics (Holdings) Ltd. (Hong Kong)	35%	35%	35%

The investment (loss) gain recognized for associates accounted for using the equity method was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
China Aircraft Services	\$ (27,075)	\$ (12,550)	\$ (244,985)	\$ (73,782)
Dynasty Holidays	(422)	(682)	(1,302)	(2,326)
Airport Air Cargo Terminal (Xiamen)	5,391	5,347	29,200	19,247
Airport Air Cargo Service (Xiamen)	7,019	4,637	20,366	13,751
Eastern United International Logistics (Holdings) Ltd. (Hong Kong)	<u>3,051</u>	<u>1,838</u>	<u>8,980</u>	<u>3,288</u>
	<u>\$ (12,036)</u>	<u>\$ (1,410)</u>	<u>\$ (187,741)</u>	<u>\$ (39,822)</u>

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

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
China Pacific Catering Services	\$ 533,279	\$ 695,959	\$ 680,527
China Pacific Laundry Services	121,458	149,353	146,027
NORDAM Asia Ltd.	33,484	37,767	37,820
Delica International Co., Ltd.	<u>7,871</u>	<u>7,871</u>	<u>7,868</u>
	<u>\$ 696,092</u>	<u>\$ 890,950</u>	<u>\$ 872,242</u>

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

	Proportion of Ownership and Voting Rights		
	September 30, 2021	December 31, 2020	September 30, 2020
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%
NORDAM Asia Ltd.	49%	49%	49%
Delica International Co., Ltd.	51%	51%	51%

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

The investment (loss) gain recognized for jointly controlled entities accounted for using the equity method was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2021	2020	2021	2020
China Pacific Catering Services	\$ (60,084)	\$ (48,653)	\$ (162,680)	\$ (120,543)
China Pacific Laundry Services	(11,299)	(6,949)	(27,895)	(15,877)
NORDAM Asia Ltd.	(1,727)	(1)	(4,283)	7
Delica International Co., Ltd.	-	-	-	-
	<u>\$ (73,110)</u>	<u>\$ (55,603)</u>	<u>\$ (194,858)</u>	<u>\$ (136,413)</u>

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

For information on the major businesses and products and the locations of registration for the major business offices of the above entities, refer to Tables 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Others	Total
<u>Cost</u>					
Balance at January 1, 2020	\$ 1,002,499	\$ 16,084,063	\$ 272,077,692	\$ 16,846,835	\$ 306,011,089
Additions	-	31,375	448,356	378,680	858,411
Disposals	(15,205)	(372,712)	(2,873,953)	(195,126)	(3,456,996)
Reclassification	-	303	1,485,746	22,295	1,508,344
Net exchange differences	(16,972)	(30,991)	-	(3,326)	(51,289)
Balance at September 30, 2020	<u>\$ 970,322</u>	<u>\$ 15,712,038</u>	<u>\$ 271,137,841</u>	<u>\$ 17,049,358</u>	<u>\$ 304,869,559</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2020	\$ -	\$ (7,028,540)	\$ (141,886,170)	\$ (11,209,408)	\$ (160,124,118)
Depreciation expenses	-	(368,318)	(13,546,525)	(693,661)	(14,608,504)
Disposals	-	370,829	2,691,178	188,919	3,250,926
Reclassification	-	-	1,489,158	5,564	1,494,722
Net exchange differences	-	16,330	-	(1,559)	14,771
Balance at September 30, 2020	<u>\$ -</u>	<u>\$ (7,009,699)</u>	<u>\$ (151,252,359)</u>	<u>\$ (11,710,145)</u>	<u>\$ (169,972,203)</u>
Balance at September 30, 2020, net value	<u>\$ 970,322</u>	<u>\$ 8,702,339</u>	<u>\$ 119,885,482</u>	<u>\$ 5,339,213</u>	<u>\$ 134,897,356</u>

(Continued)

	Freehold Land	Buildings	Flight Equipment	Others	Total
<u>Cost</u>					
Balance at January 1, 2021	\$ 955,823	\$ 15,705,635	\$ 282,007,135	\$ 17,058,648	\$ 315,727,241
Additions	-	220,425	866,095	548,654	1,635,174
Disposals	-	(17,311)	(44,511,895)	(136,391)	(44,665,597)
Reclassification	-	-	9,198,342	15,754	9,214,096
Net exchange differences	(9,790)	(18,061)	-	(1,907)	(29,758)
Balance at September 30, 2021	<u>\$ 946,033</u>	<u>\$ 15,890,688</u>	<u>\$ 247,559,677</u>	<u>\$ 17,484,758</u>	<u>\$ 281,881,156</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2021	\$ -	\$ (7,121,637)	\$ (155,376,265)	\$ (11,747,645)	\$ (174,245,547)
Depreciation expenses	-	(367,719)	(12,648,680)	(660,556)	(13,676,955)
Disposals	-	17,311	37,878,024	133,414	38,028,749
Reclassification	-	-	987	2,708	3,695
Net exchange differences	-	9,586	-	1,575	11,161
Balance at September 30, 2021	<u>\$ -</u>	<u>\$ (7,462,459)</u>	<u>\$ (130,145,934)</u>	<u>\$ (12,270,504)</u>	<u>\$ (149,878,897)</u>
Balance at September 30, 2021, net value	<u>\$ 946,033</u>	<u>\$ 8,428,229</u>	<u>\$ 117,413,743</u>	<u>\$ 5,214,254</u>	<u>\$ 132,002,259</u>

(Concluded)

Reclassification was mainly aircraft prepayment.

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

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

Refer to Note 33 for the carrying amounts of property, plant and equipment pledged by the Group.

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

The Group disposed of a portion of flight equipment and recognized a loss of \$950,980 thousand for the three months ended June 30, 2021.

16. INVESTMENT PROPERTIES

	September 30, 2021	December 31, 2020	September 30, 2020
Carrying amount			
Investment properties	\$ <u>2,074,597</u>	\$ <u>2,074,798</u>	\$ <u>2,074,864</u>

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

The fair values of the investment properties held by the Group were all \$2,488,931 thousand as of December 31, 2020 and September 30, 2020, respectively. In addition, management assessed that there was no significant difference between the fair values on September 30, 2021 and December 31, 2020. The fair value valuations were performed by independent qualified professional valuers and management's assessment based on similar market transactions.

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

17. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Others	Accumulated Amortization	Net Value
Balance at January 1, 2020	\$ 2,406,163	\$ 186,197	\$ (1,409,668)	\$ 1,182,692
Additions	57,717	-	-	57,717
Reclassification	549	-	-	549
Amortization expenses	-	-	(152,758)	(152,758)
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>(6)</u>
Balance at September 30, 2020	<u>\$ 2,464,429</u>	<u>\$ 186,197</u>	<u>\$ (1,562,432)</u>	<u>\$ 1,088,194</u>
Balance at January 1, 2021	\$ 1,763,644	\$ 186,197	\$ (873,490)	\$ 1,076,351
Additions	52,508	168,280	-	220,788
Reclassification	24,710	-	-	24,710
Amortization expenses	-	-	(165,970)	(165,970)
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Balance at September 30, 2021	<u>\$ 1,840,862</u>	<u>\$ 354,477</u>	<u>\$ (1,039,463)</u>	<u>\$ 1,155,876</u>

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

In addition, the contract for the purchase of the trademark has a final payment of \$83,000 thousand still unpaid.

18. OTHER ASSETS

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Current</u>			
Temporary payments	\$ 213,088	\$ 136,681	\$ 278,196
Prepayments	432,040	348,554	1,246,722
Restricted assets	10,009	11,065	11,710
Others	<u>398,633</u>	<u>364,879</u>	<u>327,462</u>
	<u>\$ 1,053,770</u>	<u>\$ 861,179</u>	<u>\$ 1,864,090</u>
<u>Non-current</u>			
Prepayments for aircraft	\$ 8,616,451	\$ 5,725,340	\$ 9,845,883
Prepayments - long-term	1,524,002	2,216,049	2,501,818
Refundable deposits	1,070,646	1,087,668	1,166,081
Restricted assets	562,623	291,742	130,540
Other financial assets	18,141	18,078	18,292
Others	<u>13,575</u>	<u>14,015</u>	<u>24,331</u>
	<u>\$ 11,805,438</u>	<u>\$ 9,352,892</u>	<u>\$ 13,686,945</u>

The prepayments for aircraft are comprised of prepaid deposits and capitalized interest from the purchase of A321neo, A320neo and B777F aircraft. For details of the contract for the purchase of the aircraft, refer to Note 34.

19. BORROWINGS

a. Short-term loans

	September 30, 2021	December 31, 2020	September 30, 2020
Bank loans - unsecured	<u>\$ 1,952,000</u>	<u>\$ 1,932,000</u>	<u>\$ 1,932,000</u>
Interest rates	0.90%-1.27%	0.92%-1.28%	0.92%-1.28%

b. Short-term bills payable

	September 30, 2021	December 31, 2020	September 30, 2020
Commercial paper	\$ -	\$ 8,100,000	\$ 8,500,000
Less: Unamortized discount on bills payable	<u>-</u>	<u>11,118</u>	<u>31,722</u>
	<u>\$ -</u>	<u>\$ 8,088,882</u>	<u>\$ 8,468,278</u>
Annual discount rate	-	0.99%-1.00%	0.99%-1.23%

c. Long-term borrowings

	September 30, 2021	December 31, 2020	September 30, 2020
Unsecured bank loans	\$ 22,399,892	\$ 23,470,696	\$ 14,114,500
Secured bank loans	37,592,547	39,584,540	40,862,328
Commercial papers			
Proceeds from issuance	30,460,000	29,490,000	34,200,000
Less: Unamortized discounts	<u>29,223</u>	<u>22,532</u>	<u>26,634</u>
	90,423,216	92,522,704	89,150,194
Less: Current portion	<u>13,808,717</u>	<u>15,234,374</u>	<u>16,468,455</u>
	<u>\$ 76,614,499</u>	<u>\$ 77,288,330</u>	<u>\$ 72,681,739</u>
Interest rates	0.83%-1.60%	0.81%-1.63%	0.81%-1.63%

Secured bank loans are secured by flight equipment, buildings, and other equipment, refer to Note 33.

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

	September 30, 2021	December 31, 2020	September 30, 2020
Periods	2009.2.4- 2032.6.30	2009.2.4- 2032.6.30	2009.2.4- 2032.6.30

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until September 2026, were used by the Group to guarantee the commercial papers issued. As of September 30, 2021, December 31, 2020 and September 30, 2020, such commercial papers were issued at discount rates of 0.9787%-1.0907%, 1.0263%-1.1629% and 1.0310%-1.1310%, respectively.

In accordance with the “Regulations on Relief and Revitalization Measures for Industries and Enterprises Affected by Severe Pneumonia with Novel Pathogens” endorsed by the Ministry of Transportation and Communications and the “Operational Guides on Relief Loan Guarantees for Ailing Aviation Industry Affected by Severe Pneumonia with Novel Pathogens”, the Group applied for a special loan project to maintain its operation, and the fund along with credit guarantee were provided by the government. The total amount of the loans is \$35,290 million, which shall be repaid within 2 years from the date of initial drawdown. The Group can apply to the lending institution for a two-year extension. As of September 30, 2021, the Group had made a drawdown in the amount of \$23,710 million.

20. BONDS PAYABLE

	September 30, 2021	December 31, 2020	September 30, 2020
Unsecured corporate bonds first-time issued in 2016	\$ -	\$ 2,350,000	\$ 2,350,000
Unsecured corporate bonds second-time issued in 2016	-	2,500,000	2,500,000
Unsecured corporate bonds first-time issued in 2017	1,000,000	1,000,000	1,000,000
Unsecured corporate bonds second-time issued in 2017	2,600,000	2,600,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	4,500,000	4,500,000
Unsecured corporate bonds first-time issued in 2019	3,500,000	3,500,000	3,500,000
Convertible bonds sixth-time issues	1,939,234	5,832,859	5,812,586
Convertible bonds seventh-time issues	<u>4,327,029</u>	<u>-</u>	<u>-</u>
	17,866,263	22,282,859	23,162,586
Less: Current portion and put option of convertible bonds	<u>1,300,000</u>	<u>11,982,859</u>	<u>11,562,586</u>
	<u>\$ 16,566,263</u>	<u>\$ 10,300,000</u>	<u>\$ 11,600,000</u>

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
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 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 September 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 2021 and 2022; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November 2022 and 2023; indicator rate; payable annually	1.32
Seven-year private unsecured bonds - issued at par in November 2018; repayable in November 2024 and 2025; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November 2024 and 2025; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually	2019.06.21-2024.06.21	Principal repayable in June 2023 and 2024; indicator rate; payable annually	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually	2019.06.21-2026.06.21	Principal repayable in June 2025 and 2026; indicator rate; payable annually	1.32
Five-year convertible bonds - issued at discount in January 2018; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Unless bonds are converted to share capital or redeemed, principal repayable one time in January 2023; 1.3821 discount rate p.a.	-
Five-year convertible bonds-issued at discount in April 2021; repayable in lump sum upon maturity; 0.8612% discount rate p.a.	2021.04.28-2026.04.28	Unless bonds are converted to share capital or redeemed, principal repayable the time in April 2026; 0.8612 discount rate p.a.	-

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 April 30, 2018 and January 30, 2023 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's ordinary shares. The initial conversion price was set at NT\$13.2, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 29, 2019, the conversion price was adjusted to NT\$12.6. Also a total face value of NT\$4,025,700 thousand of convertible bonds was converted into 319,500,000 ordinary shares of the Company.

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

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

The Company issued the seventh 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 April 28, 2024.
- c. The Company may redeem the bonds at face value between July 28, 2021 and March 18, 2026 under certain conditions.
- d. Between July 28, 2021 and April 28, 2026 (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\$19 per share, which is subject to adjustment if there is a capital injection by cash or share dividend distribution.

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 0.8612% per annum on initial recognition.

Proceeds from issuance	\$ 4,500,000
Equity component	<u>(188,862)</u>
Liability component at the date of issuance	<u>\$ 4,311,138</u>

21. LEASE AGREEMENTS

a. Right-of-use assets

	September 30, 2021	December 31, 2020	September 30, 2020
Carrying amounts			
Land	\$ 7,382,514	\$ 7,813,335	\$ 7,950,003
Buildings	1,146,996	1,394,386	1,271,880
Flight equipment	48,224,332	50,644,652	53,643,107
Other equipment	<u>7,403</u>	<u>9,164</u>	<u>1,991</u>
	<u>\$ 56,761,245</u>	<u>\$ 59,861,537</u>	<u>\$ 62,866,981</u>
		For the Nine Months Ended September 30	
		2021	2020
Additions to right-of-use assets		<u>\$ 2,661,426</u>	<u>\$ 2,113,026</u>
Depreciation for right-of-use assets			
Land		\$ 147,161	\$ 363,649
Buildings		298,035	589,586
Flight equipment		8,396,088	8,335,550
Other equipment		<u>9,993</u>	<u>1,213</u>
		<u>\$ 8,851,277</u>	<u>\$ 9,289,998</u>

b. Lease liabilities

	September 30, 2021	December 31, 2020	September 30, 2020
Carrying amounts			
Current	<u>\$ 2,640,078</u>	<u>\$ 2,525,957</u>	<u>\$ 2,499,005</u>
Non-current	<u>\$ 13,267,766</u>	<u>\$ 13,279,792</u>	<u>\$ 13,530,522</u>

Ranges of discount rates for lease liabilities (including leases denominated in USD designated as hedging instruments):

	September 30, 2021	December 31, 2020	September 30, 2020
Land	0%-1.80%	1.09%-1.80%	0%-1.8%
Buildings	0%-2.98%	0%-3.56%	0%-2.98%
Flight equipment	0.68%-3.34%	0.68%-3.34%	0.68%-3.34%
Other equipment	0%-1.50%	1.06%-1.50%	1.058%

c. Financial liabilities under hedge accounting

The Group specifies a part of aircraft leases denominated in USD as hedging instruments to avoid exchange rate fluctuations in passenger revenue and applies the accounting treatment of cash flow hedge. The lease information is as follows:

	Maturity Date	Subject	Carrying Value
September 30, 2021	2022.2.9-2028.5.15	Financial liabilities for hedging - current	\$ 8,403,826
		Financial liabilities for hedging - non-current	27,728,396
December 31, 2020	2022.2.9-2028.5.15	Financial liabilities for hedging - current	8,120,445
		Financial liabilities for hedging - non-current	32,455,333
September 30, 2020	2021.4.15-2028.5.15	Financial liabilities for hedging - current	8,390,296
		Financial liabilities for hedging - non-current	35,774,370

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the nine months ended September 30, 2021	\$ 231,217	\$ 501,418
For the three months ended September 30, 2021	(190,986)	188,207
For the nine months ended September 30, 2020	1,262,985	219,942
For the three months ended September 30, 2020	832,399	93,174

- d. China Airlines, Mandarin Airlines and Tigerair Taiwan leased ten 777-300ER planes, twenty A330-300 planes, fifteen 737-800 planes, ten A320-200 planes, two A320neo planes, four ERJ190 planes, and three ART72-600 planes for operation, lease period are 4 to 16 years from February 2006 to July 2023. The rental pricing method is partly a fixed amount of funds, and some of them are floating rents, floating rents are according to benchmark ratio, the rent is revised every half year. When the lease expires, the lease agreements have no purchase rights.

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

	September 30, 2021	December 31, 2020	September 30, 2020
Refundable deposits	\$ 748,518	\$ 725,135	\$ 741,998
Credit guarantees	1,842,845	1,756,656	1,797,508

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, refer to Note 34. The lease includes an option to extend the lease, as it is not possible to extend the lease, the amount of the lease related to the period covered by the option is not included in the lease liability. If the amount of the extended lease period was included in the lease liability, the lease liability would have increased by \$894,584 thousand, \$885,657 thousand and \$882,702 thousand on September 30, 2021, December 31, 2020 and September 30, 2020, respectively.

Taiwan Air Cargo Terminal Co. and CAA signed a BOT contract with a land lease agreement. For details, please refer to Note 34.

- e. In September 2019, the Company signed a rental contract for six A321neo with Air Lease Corporation, which is expected to be introduced between 2021 and 2023.

In October 2019, the Company signed a rental contract for eight A321neo with CALC Lease Corporation, which is expected to be delivered between 2022 and 2023.

In February 2020, Tigerair Taiwan Co., Ltd. signed a rental contract for eight A320neo with ICBC Lease Corporation, which is expected to be delivered between 2021 and 2024. As of September 30, 2021, two A320neo have been delivered.

- f. In order to revitalize assets and strengthen financial structure, the Company signed a sale and leaseback agreement for five A330-300 with CALC Lease Corporation in June 2021 and September 2021. Those aircraft were sold for \$2,810,098 thousand and the Company recognized a loss of \$342,080 thousand. The lease term is 4 years without renewal option or right of first refusal and the annual lease payments for each aircraft are US\$4,200 thousand to US\$4,823 thousand.
- g. In order to revitalize assets, the Company signed a lease agreement for two 747-400F with US Cargo Company in August 2021 and September 2021, which is expected to be delivered between October 2021 and December 2021.
- h. Other lease information

The Group uses operating lease agreement for investment properties, refer to Note 16.

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2021	2020	2021	2020
Short-term leases and low-value asset leases	\$ 9,203	\$ 6,994	\$ 22,846	\$ 19,117
Total cash outflow for leases	\$ (2,961,296)	\$ (3,183,943)	\$ (8,889,159)	\$ (9,581,731)

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

22. OTHER PAYABLES

	September 30, 2021	December 31, 2020	September 30, 2020
Short-term employee benefits	\$ 2,687,129	\$ 1,948,982	\$ 2,197,375
Fuel costs	2,393,587	1,853,717	1,341,930
Repair expenses	1,023,532	366,589	491,382
Ground service expenses	872,152	956,956	857,837
Terminal surcharges	726,684	420,194	451,174
Interest expenses	159,529	120,550	173,278
Commission expenses	114,160	184,363	317,156
Others	2,004,784	2,454,906	2,650,850
	\$ 9,981,557	\$ 8,306,257	\$ 8,480,982

23. CONTRACT LIABILITIES

	September 30, 2021	December 31, 2020	September 30, 2020
Frequent flyer program	\$ 2,691,031	\$ 2,671,203	\$ 2,789,328
Advance ticket sales	1,496,695	2,659,093	3,603,340
Others	<u>-</u>	<u>168</u>	<u>-</u>
	<u>\$ 4,187,726</u>	<u>\$ 5,330,464</u>	<u>\$ 6,392,668</u>
Current	\$ 3,271,347	\$ 3,569,360	\$ 4,394,318
Non-current	<u>916,379</u>	<u>1,761,104</u>	<u>1,998,350</u>
	<u>\$ 4,187,726</u>	<u>\$ 5,330,464</u>	<u>\$ 6,392,668</u>

24. PROVISIONS

	September 30, 2021	December 31, 2020	September 30, 2020
Operating leases - aircraft	<u>\$ 17,738,772</u>	<u>\$ 14,534,286</u>	<u>\$ 13,787,291</u>
Current	\$ 2,775,946	\$ 164,800	\$ 221,320
Non-current	<u>14,962,826</u>	<u>14,369,486</u>	<u>13,565,971</u>
	<u>\$ 17,738,772</u>	<u>\$ 14,534,286</u>	<u>\$ 13,787,291</u>

Aircraft Lease Contracts

Balance at January 1, 2020	\$ 10,371,857
Additional provisions recognized	4,730,275
Usage	(962,948)
Effects of exchange rate changes	<u>(351,893)</u>
Balance at September 30, 2020	<u>\$ 13,787,291</u>
Balance at January 1, 2021	\$ 14,534,286
Additional provisions recognized	4,575,939
Usage	(1,142,874)
Effects of exchange rate changes	<u>(228,579)</u>
Balance at September 30, 2021	<u>\$ 17,738,772</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 with the contract, Tigerair had to pay the maintenance reserve accounted for by using the actual number of flying hours.

25. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Group's defined benefit retirement plan was calculated using the actuarially determined pension cost discount rate as of December 31, 2020 and 2019.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Operating costs	\$ 242,394	\$ 222,901	\$ 739,235	\$ 709,999
Operating expenses	<u>99,462</u>	<u>91,616</u>	<u>279,185</u>	<u>304,134</u>
	<u>\$ 341,856</u>	<u>\$ 314,517</u>	<u>\$ 1,018,420</u>	<u>\$ 1,014,133</u>

26. EQUITY

a. Share capital

Ordinary shares

	September 30, 2021	December 31, 2020	September 30, 2020
Number of shares authorized (in thousands)	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>
Amount of shares authorized	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>
Amount of shares issued	<u>\$ 57,404,844</u>	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>

The Company issued the 6th domestic unsecured convertible bonds, and the holders of the convertible bonds applied for conversion in the amount of \$4,025,700 thousand for the six months ended September 30, 2021. The number of ordinary shares exchanged was 319,500,000 and entitled to have their registration changed after the issuance of new shares.

b. Capital surplus

	September 30, 2021	December 31, 2020	September 30, 2020
Issuance of shares in excess of par value and conversion premium	\$ 746,037	\$ 146,351	\$ 146,351
Retirement of treasury shares	-	33,513	33,513
Employee share options expired	-	11,747	11,747
Long-term investments	540	119,134	119,134
Bonds payable - equity component	323,766	409,978	409,978
Others	<u>701,842</u>	<u>466,604</u>	<u>466,604</u>
	<u>\$ 1,772,185</u>	<u>\$ 1,187,327</u>	<u>\$ 1,187,327</u>

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

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

c. Appropriation of earnings and dividend policy

Under the dividend policy as set forth in the Company's Articles of Incorporation (the "Articles"), where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which is to distribute dividends and bonus no less than 50% of the remaining profit and undistributed retained earnings. The dividends and bonus mentioned above can be distributed in the form of new shares or cash, and the cash dividends should be no less than 30% of the total dividends.

Under the Company Act, if surplus earnings are distributed in the form of new shares, the distribution of shares shall be approved in the meeting of the board of directors; if such earnings are distributed in the form of cash, the cash distribution shall be authorized after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition, a report of such distribution shall be submitted to the shareholders' meeting. If the Group has no loss, according to laws and regulations, the Group can distribute its capital reserve, in whole or in part, by issuing new shares or cash based on financial, business and management considerations. If such surplus earnings is distributed in the form of new shares, it shall be approved by a meeting of the board of directors; if such surplus earning is distributed in the form of cash, it shall be authorized after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

Under the dividend policy as set forth in the Company's Articles of Incorporation (the "Articles") 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.

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

1) Offsetting deficit in 2019

On June 23, 2020, the offsetting of deficit in 2019 was resolved and recognized in the shareholders' meeting. The deficit included a net loss of \$1,199,798 thousand and negative adjustment of other retained earnings of \$577,427 thousand; thus, the remaining amount of accumulated deficit was \$1,777,225 thousand. The deficit was offset by the legal reserve of \$466,416 thousand, the special reserve of \$12,967 thousand and the capital reserve of \$1,297,843 thousand.

2) Offsetting deficit in 2020

On August 12, 2021, the offsetting of deficit in 2020 was resolved and recognized in the shareholders' meeting. The deficit included a net income of \$140,000 thousand and negative adjustment of other retained earnings of \$490,581 thousand; thus, the remaining amount of accumulated deficit was \$350,581 thousand. The deficit was offset by the capital reserve of \$350,581 thousand.

d. Other equity items

The movements of other equity items were as follows:

	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Gain (Loss) on Hedging Instruments	Total
Balance on January 1, 2020	\$ (54,707)	\$ 107,262	\$ 1,143,678	\$ 1,196,233
Exchange differences on translation of the financial statements of foreign operations	(68,728)	-	-	(68,728)
Gain on hedging instruments	-	-	1,185,753	1,185,753
Cumulative loss on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(179,589)	(179,589)
Unrealized loss on financial assets at fair value through other comprehensive income	-	(85,280)	-	(85,280)
Effects of income tax	13,497	16,153	(201,234)	(171,584)
Other comprehensive income recognized in the period	<u>(55,231)</u>	<u>(69,127)</u>	<u>804,930</u>	<u>680,572</u>
Balance on September 30, 2020	<u>\$ (109,938)</u>	<u>\$ 38,135</u>	<u>\$ 1,948,608</u>	<u>\$ 1,876,805</u>
Balance on January 1, 2021	\$ (134,252)	\$ 71,359	\$ 2,606,659	\$ 2,543,766
Exchange differences on translation of the financial statements of foreign operations	(33,157)	-	-	(33,157)
Gain on hedging instruments	-	-	687,829	687,829
Cumulative loss on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(492,844)	(492,844)
Unrealized loss on financial assets at fair value through other comprehensive income	-	(72,433)	-	(72,433)
Effects of income tax	6,369	13,982	(38,996)	(18,645)
Other comprehensive income recognized in the period	<u>(26,788)</u>	<u>(58,451)</u>	<u>155,989</u>	<u>70,750</u>
Transferred to hedged items	-	-	79,606	79,606
Balance on September 30, 2021	<u>\$ (161,040)</u>	<u>\$ 12,908</u>	<u>\$ 2,842,254</u>	<u>\$ 2,694,122</u>

e. Non-controlling interests

	For the Nine Months Ended September 30	
	2021	2020
Beginning balance	\$ 3,152,090	\$ 3,578,345
Share in loss for the year	(457,069)	(353,423)
Exchange differences on translating the financial statements of foreign operations	(1,403)	(1,327)
Loss on hedging instruments	(325)	(855)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	785	1,698
Effects of income tax	<u>(92)</u>	<u>(169)</u>
	<u>(1,035)</u>	<u>(653)</u>

(Continued)

	For the Nine Months Ended September 30	
	2021	2020
Change in subsidiaries' equity	\$ 575,753	\$ -
Share options held by the employees of subsidiaries	126	52
Dividends paid by subsidiaries	<u>(124,727)</u>	<u>(375,036)</u>
Ending balance	<u>\$ 3,145,138</u>	<u>\$ 2,849,285</u> (Concluded)

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of September 30, 2021 and 2020 and are as follows:

(In Thousands of Shares)

Period of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year	Number of Shares, End of Year
For the nine months ended September 30, 2021	<u>2,075</u>	<u>-</u>	<u>2,075</u>
For the nine months ended September 30, 2020	<u>2,889</u>	<u>(814)</u>	<u>2,075</u>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>September 30, 2021</u>			
Mandarin Airlines	2,075	<u>\$ 35,684</u>	<u>\$ 35,684</u>
<u>December 31, 2020</u>			
Mandarin Airlines	2,075	<u>\$ 24,999</u>	<u>\$ 24,999</u>
<u>September 30, 2020</u>			
Mandarin Airlines	2,075	<u>\$ 17,178</u>	<u>\$ 17,178</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.

Dynasty Aerotech International Corp. sold a total of 814 thousand shares of the Company between January 1, 2020 and September 30, 2020. The disposal price was \$6,854 thousand.

27. NET INCOME

a. Revenue

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Passenger	\$ 1,189,331	\$ 3,241,277	\$ 4,569,176	\$ 23,482,646
Cargo	31,247,067	21,508,899	81,309,658	56,046,312
Others	<u>2,037,604</u>	<u>1,861,522</u>	<u>5,795,806</u>	<u>5,955,392</u>
	<u>\$ 34,474,002</u>	<u>\$ 26,611,698</u>	<u>\$ 91,674,640</u>	<u>\$ 85,484,350</u>

b. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Interest income	\$ 22,988	\$ 62,650	\$ 97,677	\$ 242,761
Dividend income	11,607	15,099	11,607	22,516
Others	<u>104,598</u>	<u>104,754</u>	<u>280,455</u>	<u>280,430</u>
	<u>\$ 139,193</u>	<u>\$ 182,503</u>	<u>\$ 389,739</u>	<u>\$ 545,707</u>

c. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Gain (loss) on disposal of property, plant and equipment	\$ (33,839)	\$ 6,586	\$ (1,023,694)	\$ 13,466
Loss arising from sale and leaseback transactions	(202,383)	-	(342,080)	-
Gain (loss) on financial assets mandatorily classified as at FVTPL	238	304	13	2,234
Loss on disposal of investments	-	-	(540)	-
Net foreign exchange (losses) gains	(17,152)	161,378	(19,211)	212,336
Others	<u>(61,279)</u>	<u>(78,573)</u>	<u>(222,699)</u>	<u>(208,629)</u>
	<u>\$ (314,415)</u>	<u>\$ 89,695</u>	<u>\$ (1,608,211)</u>	<u>\$ 19,407</u>

d. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Interest expense				
Bonds payable	\$ 37,978	\$ 99,399	\$ 187,102	\$ 242,546
Bank loans	162,900	193,212	552,150	715,996
Interest on lease liabilities	<u>371,642</u>	<u>458,065</u>	<u>1,111,729</u>	<u>1,409,299</u>
	<u>\$ 572,520</u>	<u>\$ 750,676</u>	<u>\$ 1,850,981</u>	<u>\$ 2,367,841</u>
Capitalization rate	0.55%-1.11%	0.78%-1.55%	0.55%-1.11%	0.71%-1.92%
Capitalization interest	<u>\$ 11,619</u>	<u>\$ 18,559</u>	<u>\$ 30,735</u>	<u>\$ 64,708</u>

e. Depreciation and amortization expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Property, plant, equipment	\$ 4,107,786	\$ 4,835,632	\$ 13,676,955	\$ 14,608,504
Right-of-use assets	2,977,451	3,041,624	8,851,277	9,289,998
Investment properties	66	67	200	203
Intangible assets	<u>56,769</u>	<u>47,201</u>	<u>165,970</u>	<u>152,758</u>
Depreciation and amortization expenses	<u>\$ 7,142,072</u>	<u>\$ 7,924,524</u>	<u>\$ 22,694,402</u>	<u>\$ 24,051,463</u>
An analysis of depreciation by function				
Operating costs	\$ 6,899,689	\$ 7,649,024	\$ 21,700,767	\$ 22,858,093
Operating expenses	<u>185,614</u>	<u>228,299</u>	<u>827,665</u>	<u>1,040,612</u>
	<u>\$ 7,085,303</u>	<u>\$ 7,877,323</u>	<u>\$ 22,528,432</u>	<u>\$ 23,898,705</u>
An analysis of amortization by function				
Operating costs	\$ 3,010	\$ 3,561	\$ 9,032	\$ 10,647
Operating expenses	<u>53,759</u>	<u>43,640</u>	<u>156,938</u>	<u>142,111</u>
	<u>\$ 56,769</u>	<u>\$ 47,201</u>	<u>\$ 165,970</u>	<u>\$ 152,758</u>

f. Employment benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Post-employment benefits				
Defined contribution plans	\$ 126,607	\$ 153,738	\$ 387,783	\$ 437,620
Defined benefit plans	<u>341,856</u>	<u>314,517</u>	<u>1,018,420</u>	<u>1,014,133</u>
	<u>\$ 468,463</u>	<u>\$ 468,255</u>	<u>\$ 1,406,203</u>	<u>\$ 1,451,753</u>
Other employee benefits				
Salary expenses	\$ 4,847,369	\$ 4,534,209	\$ 13,538,648	\$ 13,599,526
Personnel service expenses	<u>1,158,472</u>	<u>852,518</u>	<u>3,743,412</u>	<u>3,267,290</u>
	<u>\$ 6,005,841</u>	<u>\$ 5,386,727</u>	<u>\$ 17,282,060</u>	<u>\$ 16,866,816</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 5,346,128	\$ 4,823,825	\$ 15,336,479	\$ 14,827,517
Operating expenses	<u>1,128,176</u>	<u>1,031,157</u>	<u>3,351,784</u>	<u>3,491,052</u>
	<u>\$ 6,474,304</u>	<u>\$ 5,854,982</u>	<u>\$ 18,688,263</u>	<u>\$ 18,318,569</u>

According to the Company's articles, the Company accrues compensation of employees at rates of no less than 3% of the net profit before income tax and compensation of employees. For the three months ended September 30, 2021 and for the nine months ended September 30, 2021, the estimated compensation of employees was both \$53,321 thousand. For the three months ended September 30, 2020 and for the nine months September 30, 2020, the Company has experienced a deficit and, therefore, no compensation of employees 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 compensation and remuneration are recognized. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

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

28. INCOME TAX

a. Income tax expense recognized in profit or loss

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Current tax				
Current year	\$ 766,443	\$ 120,086	\$ 847,840	\$ 445,896
Adjustments for prior periods	-	199	7,785	(22,123)
Deferred tax				
Current year	<u>(414,753)</u>	<u>(196,052)</u>	<u>(683,857)</u>	<u>(608,149)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 351,690</u>	<u>\$ (75,767)</u>	<u>\$ 171,768</u>	<u>\$ (184,376)</u>

b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ 211	\$ 3,548	\$ 6,369	\$ 13,497
Fair value changes of financial assets at FVTOCI	10,783	2,295	13,982	16,153
Fair value revaluation of hedging instruments for cash flow hedging	<u>39,577</u>	<u>(124,972)</u>	<u>(39,088)</u>	<u>(201,403)</u>
Total income tax recognized in other comprehensive income	<u>\$ 50,571</u>	<u>\$ (119,129)</u>	<u>\$ (18,737)</u>	<u>\$ (171,753)</u>

c. Income tax assessment

Income tax returns of the Company through 2018 have been examined by the tax authorities. And the income tax returns of the rest of the Company's subsidiaries through 2019 have been examined by the tax authorities.

29. EARNINGS (LOSS) PER SHARE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Basic earnings (loss) per share	<u>\$ 0.51</u>	<u>\$ (0.13)</u>	<u>\$ 0.28</u>	<u>\$ (0.37)</u>
Diluted earnings (loss) per share	<u>\$ 0.48</u>	<u>\$ (0.13)</u>	<u>\$ 0.26</u>	<u>\$ (0.37)</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Earnings (loss) used in the computation of basic earnings (loss) per share	\$ 2,917,304	\$ (707,937)	\$ 1,555,376	\$ (2,021,822)
Effect of potentially dilutive ordinary shares:				
Interest on convertible bonds (after tax)	<u>16,615</u>	<u>-</u>	<u>60,635</u>	<u>-</u>
Earnings (loss) used in the computation of diluted earnings (loss) per share	<u>\$ 2,933,919</u>	<u>\$ (707,937)</u>	<u>\$ 1,616,011</u>	<u>\$ (2,021,822)</u>
<u>In thousands of shares</u>				
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	5,724,826	5,418,910	5,540,441	5,418,640
Effect of potentially dilutive ordinary shares:				
Compensation of employees	3,100	-	3,100	-
Convertible bonds	<u>407,116</u>	<u>-</u>	<u>591,501</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	<u>6,135,042</u>	<u>5,418,910</u>	<u>6,135,042</u>	<u>5,418,640</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 (loss) per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings (loss) per share until the number of shares to be distributed to employees is resolved in the following year.

30. 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 to the Group's consolidated financial statements for the year ended December 31, 2020.

31. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments not measured at fair value

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

	<u>September 30, 2021</u>		<u>December 31, 2020</u>		<u>September 30, 2020</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial liabilities</u>						
Bonds payable	\$ 17,866,263	\$ 19,076,962	\$ 22,282,859	\$ 22,459,685	\$ 23,162,586	\$ 23,145,514

Lease liabilities and long-term debts are floating-rate financial liabilities, so their carrying amounts are their fair values. Fair values of bond payable trading in OTC and based on quoted market prices (Level 1)

b. Fair value of financial instruments measured at fair value on a 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, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	<u>\$ 169,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,479</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 27,181	\$ 27,181
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>63,999</u>	<u>63,999</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,180</u>	<u>\$ 91,180</u>
Financial assets for hedging	<u>\$ 2,228,412</u>	<u>\$ -</u>	<u>\$ 20,219</u>	<u>\$ 2,248,631</u>
Financial liabilities for hedging	<u>\$ 36,132,222</u>	<u>\$ 1,080</u>	<u>\$ 424</u>	<u>\$ 36,133,726</u>

December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ <u>274,761</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>274,761</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 29,704	\$ 29,704
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>134,042</u>	<u>134,042</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,746</u>	<u>\$ 163,746</u>
Financial assets for hedging	\$ <u>7,613,636</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,613,636</u>
Financial liabilities for hedging	\$ <u>40,575,778</u>	\$ <u>9,307</u>	\$ <u>-</u>	\$ <u>40,585,085</u>

September 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ <u>491,271</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>491,271</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 22,351	\$ 22,351
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>100,161</u>	<u>100,161</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,512</u>	<u>\$ 122,512</u>
Financial assets for hedging	\$ <u>9,505,814</u>	\$ <u>44</u>	\$ <u>2</u>	\$ <u>9,505,860</u>
Financial liabilities for hedging	\$ <u>44,164,666</u>	\$ <u>92,968</u>	\$ <u>33,243</u>	\$ <u>44,290,877</u>

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

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

<u>Financial Instrument</u>	<u>Valuation Techniques and Inputs</u>
Derivative	The fair values of derivatives (except for 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 fuel options are determined using option pricing models where the significant unobservable inputs are the implied fluctuation. Changes in the implied fluctuations used in isolation would result in an increase or decrease in the fair value of the fuel options.

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

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

	Multiplier	Liquidity Discount
September 30, 2021	0.79-16.32	80%
December 31, 2020	0.79-16.32	80%
September 30, 2020	0.80-21.22	80%

The movements of Level 3 financial instruments were as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1, 2021	\$ -	\$ 163,746
Recognized in other comprehensive income	<u>11,463</u>	<u>(72,566)</u>
Balance at September 30, 2021	<u>\$ 11,463</u>	<u>\$ 91,180</u>
Balance at January 1, 2020	\$ 5,524	\$ 209,221
Recognized in other comprehensive income	<u>(38,765)</u>	<u>(86,709)</u>
Balance at September 30, 2020	<u>\$ (33,241)</u>	<u>\$ 122,512</u>

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

c. Categories of financial instruments

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 169,479	\$ 274,761	\$ 491,971
Financial assets for hedging	2,248,631	7,613,636	9,505,860
Financial assets at amortized cost (Note 1)	52,998,119	45,898,091	42,853,509
Financial assets at FVTOCI	91,180	163,746	122,512
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	-	-	-
Financial liabilities for hedging	36,133,726	40,585,085	44,290,877
Financial liabilities at amortized cost (Note 2)	155,822,412	165,458,441	153,646,499

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, time deposits with original maturities of more than 3 months, notes and accounts receivable, accounts receivable - related parties, other receivables, refundable deposits and other restricted financial assets.

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

d. Financial risk management objectives and policies

The Group has risk management and hedging strategies to respond to changes in the economic and financial environment and in the fuel market. To reduce the financial risks from changes in interest, exchange rates and in fuel prices, the Group has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the “Processing Program of Derivative Financial Instrument Transactions” approved by the Group’s 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 increased by one dollar against U.S. dollars and all other variables were held constant, there would be an increase in pre-tax profit and an increase in pre-tax other comprehensive income for the nine months ended September 30, 2021 of \$165,618 thousand and \$1,212,126 thousand, respectively, and an decrease in pre-tax loss and increase in pre-tax other comprehensive income for the nine months ended September 30, 2020 of \$330,226 thousand and \$1,069,139 thousand, respectively.

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

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

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

Please refer to Note 21 for rental contract for hedging.

September 30, 2021

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	NT\$42,503/ US\$1,486	2021.10.6- 2021.11.9	28.5-28.9	Financial assets for hedging - current/ liabilities for hedging - current	\$ -	\$ 1,080

The abovementioned hedging instruments applied hedge accounting. The book value of other equity which belongs to each hedging items (aircraft rentals in U.S. dollars) was \$(1,080) thousand.

December 31, 2020

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	NT\$127,906/ US\$4,371	2021.1.8- 2021.11.9	28.5-29.7	Financial assets for hedging - current/ liabilities for hedging - current	\$ -	\$ 3,513
Aviation fuel - forward exchange contracts	NTD/USD	NT\$142,045/ US\$5,000	2021.1.29- 2021.5.28	29.9-29.8	Financial assets for hedging - current/ liabilities for hedging - current	-	5,794

The abovementioned hedging instruments applied hedge accounting. The book value of other equity for each hedging item (aircraft rentals and aviation fuel in U.S. dollars) was \$(3,513) thousand and \$(5,794) thousand, respectively.

September 30, 2020

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	NT\$212,144/ US\$7,126	2020.10.7- 2021.10.6	28.88-30.28	Financial assets for hedging - current/ liabilities for hedging - current	\$ 44	\$ 4,879
Aviation fuel - forward exchange contracts	NTD/USD	NT\$319,767/ US\$11,000	2020.10.30- 2021.5.28	29.38-30.02	Financial assets for hedging - current/ liabilities for hedging - current	-	6,958
Aircraft prepayments - forward exchange contracts	NTD/USD	NT\$3,052,326/ US\$105,000	2020.11.4- 2020.12.4	29.48-30.5	Financial assets for hedging - current/ liabilities for hedging - current	-	81,131

The abovementioned hedging instruments applied hedge accounting. The book value of other equity which belongs to each hedging items (aircraft rentals, aviation fuel and aircraft prepayments in U.S. dollar) was \$(4,835) thousand, \$(6,958) thousand and \$(81,131) thousand, respectively.

For the nine months ended September 30, 2021

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ 2,432	\$ (4,144)	(Note)
Aviation fuel	<u>5,794</u>	<u>(6,844)</u>	
	<u>\$ 8,226</u>	<u>\$ (10,988)</u>	

Note: Increase in operating costs or foreign exchange loss.

For the three months ended September 30, 2021

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ 405	\$ (356)	(Note)
Aviation fuel	<u>-</u>	<u>-</u>	
	<u>\$ 405</u>	<u>\$ (356)</u>	

Note: Increase in operating costs or foreign exchange loss.

For the nine months ended September 30, 2020

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ 3,618	\$ (7,286)	(Note)
Aviation fuel	3,203	(8,050)	
Aircraft prepayments	(62,823)	-	
Maintenance cost	<u>-</u>	<u>5</u>	
	<u>\$ (56,002)</u>	<u>\$ (15,331)</u>	

Note: Increase in operating costs or foreign exchange loss.

For the three months ended September 30, 2020

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ (318)	\$ (3,333)	(Note)
Aviation fuel	59	(5,950)	
Aircraft prepayments	(52,006)	-	
Long-term prepayments	(150)	-	
Maintenance cost	<u>-</u>	<u>5</u>	
	<u>\$ (52,415)</u>	<u>\$ (9,278)</u>	

Note: Increase in operating costs or foreign exchange loss.

b) Interest rate risk

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

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

	September 30, 2021	December 31, 2020	September 30, 2020
Fair value interest rate risk			
Financial liabilities	\$ 60,769,474	\$ 68,883,667	\$ 73,848,215
Cash flow interest rate risk			
Financial liabilities	101,512,073	112,324,305	109,059,037

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 points) 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 by one yard (25 basis points) and all other variables been held constant, the Group's pretax profit for the nine months ended September 30, 2021 would have decreased by \$190,335 thousand.

Had interest rates increased by one yard (25 basis points) and all other variables been held constant, the Group's pretax loss for the nine months ended September 30, 2020 would have increased by \$204,486 thousand.

c) Other price risk

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

September 30, 2021

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NT\$11,463	2021.12.31-2022.6.30	US\$65-US\$99	Financial assets for hedging - current/ liabilities for hedging - current	\$ 20,219	\$ 424

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (fuel payments) was \$11,463 thousand.

December 31, 2020

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	-	-	-	Financial assets for hedging - current/ liabilities for hedging - current	\$ -	\$ -

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (fuel payments) was \$0 thousand.

September 30, 2020

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NT\$10,714	2020.12.31	US\$55-US\$68.05	Financial assets for hedging - current/ liabilities for hedging - current	\$ 2	\$ 10,716
Cash flow hedges - fuel swap contract	USD	NT\$22,527	2020.12.31	US\$67.48	Financial assets for hedging - current/ liabilities for hedging - current	-	22,527

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (fuel payments) was \$(33,241) thousand.

For the nine months ended September 30, 2021

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedges - fuel options	\$ 11,463	\$ 1,629 (Note)

Note: Decreasing in operating costs.

For the three months ended September 30, 2021

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Comprehensive Income			
Cash flow hedges - fuel options	\$ 710	\$ 2,472	(Note)

Note: Decreasing in operating costs.

For the nine months ended September 30, 2020

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Comprehensive Income			
Cash flow hedges - fuel options	\$ (16,238)	\$ (26,720)	(Note)
Cash flow hedges - fuel swap contract	<u>(22,527)</u>	<u>-</u>	
	<u>\$ (38,765)</u>	<u>\$ (26,720)</u>	

Note: Increasing in operating costs.

For the three months ended September 30, 2020

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Comprehensive Income			
Cash flow hedges - fuel options	\$ 8,927	\$ (5,525)	(Note)
Cash flow hedges - fuel swap contract	<u>(2,852)</u>	<u>-</u>	
	<u>\$ 6,075</u>	<u>\$ (5,525)</u>	

Note: Increasing in operating costs.

Sensitivity analysis

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

	For the Nine Months Ended September 30			
	2021		2020	
	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)
Fuel price increase 5%	\$ 1,040	\$ 573	\$ 622	\$ 1,624
Fuel price decrease 5%	(1,040)	(573)	(622)	(5,537)

2) Credit risk

The goal, policies and procedure of credit risk management are same as the consolidated financial statements for the year ended December 31, 2020. Related illustration can be referred to in Note 32.

3) Liquidity risk

Except for the following, the objectives, policies and procedures of liquidity risk management are same as the consolidated financial statements for the year ended December 31, 2020. Related illustration can be referred to in Note 32.

	Unused Bank Loan Limit (Unsecured)
The Group (China Airlines, Ltd., Mandarin Airlines and Tigerair Taiwan Co., Ltd.)	\$ 34,043,895

Liquidity and interest risk rate table

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

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

September 30, 2021

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Lease liabilities	2.3213	\$ 3,383,178	\$ 9,320,267	\$ 7,124,893
Floating interest rate liabilities	1.0412	16,712,067	63,586,972	14,010,034
Hedging instruments	2.9120	11,559,260	26,837,567	310,856
Bonds payable	0.8872	<u>1,458,515</u>	<u>16,713,244</u>	<u>-</u>
		<u>\$ 33,113,020</u>	<u>\$ 116,458,050</u>	<u>\$ 21,445,783</u>

December 31, 2020

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Lease liabilities	1.1128	\$ 3,494,299	\$ 9,770,964	\$ 7,982,767
Floating interest rate liabilities	1.6269	26,195,346	60,977,026	17,175,894
Hedging instruments	3.0492	9,249,609	32,978,809	1,815,449
Bonds payable	2.4622	<u>12,531,511</u>	<u>9,303,608</u>	<u>1,280,778</u>
		<u>\$ 51,470,765</u>	<u>\$ 113,030,407</u>	<u>\$ 28,254,888</u>

September 30, 2020

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Lease liabilities	2.3229	\$ 3,347,633	\$ 10,262,311	\$ 7,188,594
Floating interest rate liabilities	0.9430	27,816,081	41,208,946	32,420,708
Hedging instruments	3.0497	10,039,917	36,035,514	2,687,815
Bonds payable	0.9674	<u>11,938,111</u>	<u>8,412,218</u>	<u>3,331,924</u>
		<u>\$ 53,141,742</u>	<u>\$ 95,918,989</u>	<u>\$ 45,629,041</u>

32. TRANSACTIONS WITH RELATED PARTIES

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

a. Related party' name and relationships

<u>Related Party Name</u>	<u>Relationship with the Company</u>
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
Dynasty Holidays	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	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
		2021	2020	2021	2020
Other income	Major shareholders of the Company	<u>\$ 2,040</u>	<u>\$ 1</u>	<u>\$ 10,075</u>	<u>\$ 5,097</u>
	Associate	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 56</u>	<u>\$ 122</u>
	Joint venture investment	<u>\$ 4,959</u>	<u>\$ 4,415</u>	<u>\$ 14,554</u>	<u>\$ 17,604</u>

c. Purchases of goods

Related Party Type	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2021	2020	2021	2020
Major shareholders of the Company	<u>\$ 4,714</u>	<u>\$ -</u>	<u>\$ 23,286</u>	<u>\$ 11,418</u>
Associate	<u>\$ 143,994</u>	<u>\$ 105,438</u>	<u>\$ 350,512</u>	<u>\$ 328,418</u>
Joint venture investment	<u>\$ 51,472</u>	<u>\$ 67,760</u>	<u>\$ 160,833</u>	<u>\$ 443,479</u>

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

Related Party Type	September 30, 2021	December 31, 2020	September 30, 2020
Major shareholders of the Company	\$ 718	\$ -	\$ -
Joint venture investment	<u>1,683</u>	<u>1,667</u>	<u>1,537</u>
	<u>\$ 2,401</u>	<u>\$ 1,667</u>	<u>\$ 1,537</u>

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

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

Related Party Type	September 30, 2021	December 31, 2020	September 30, 2020
Major shareholders of the Company	\$ 1,657	\$ -	\$ -
Associates	59,738	52,187	41,630
Joint venture investments	<u>51,112</u>	<u>76,380</u>	<u>68,323</u>
	<u>\$ 112,507</u>	<u>\$ 128,567</u>	<u>\$ 109,953</u>

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

f. Lease arrangements (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. For the nine months ended September 30, 2021 and 2020, the Company paid rentals of \$23,286 thousand and \$11,418 thousand, respectively; for the three months ended September 30, 2021 and 2020, the Company paid rentals of \$4,714 thousand and \$0 thousand, respectively.

g. Endorsements and assurances

	September 30, 2021		December 31, 2020		September 30, 2020	
	Authorized Amount	Amount Used	Authorized Amount	Amount Used	Authorized Amount	Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 1,663,320	\$ 3,850,000	\$ 1,892,540	\$ 3,850,000	\$ 1,914,690
Tigerair Taiwan Co., Ltd.	2,671,771	259,894	2,656,591	265,062	2,718,372	464,095
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	2,000,000	1,400,000	2,000,000	1,336,000	2,000,000	1,301,327

h. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Short-term employee benefits	\$ 11,459	\$ 7,926	\$ 30,126	\$ 23,977
Post-employment benefits	<u>516</u>	<u>657</u>	<u>41,654</u>	<u>1,822</u>
	<u>\$ 11,975</u>	<u>\$ 8,583</u>	<u>\$ 71,780</u>	<u>\$ 25,799</u>

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

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	September 30, 2021	December 31, 2020	September 30, 2020
Property, plant and equipment	\$ 32,399,027	\$ 34,170,076	\$ 35,211,100
Right-of-use asset	56,761,245	59,861,537	62,866,981
Restricted assets	<u>572,632</u>	<u>302,807</u>	<u>193,471</u>
	<u>\$ 89,732,904</u>	<u>\$ 94,334,420</u>	<u>\$ 98,271,552</u>

34. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

The Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

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

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

As of September 30, 2020, TACT had signed the following construction contracts with unrelated parties:

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	\$ 552,285
Bin Li Construction Co., Ltd., Taiwan	Cargo Terminal Expansion and Enhancement Construction	275,000
Trade-Van Information Services Co.	TACT warehouse management system integrated revision contract	30,000

As of September 30, 2021, the accumulated payments of construction in process for consultant service and construction equipment were \$26,609 thousand (VAT included) and \$222,726 thousand (VAT included), respectively. The amounts were recognized as construction in progress.

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

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

- b. 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 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.

- c. In October 2019, the Company signed a contract with Airbus S.A.S. to purchase eleven A321neo aircraft and an option to purchase five A321neo aircraft. The total list price of the eleven aircraft is US\$1,676,413 thousand, and the list price of the option to purchase five aircraft is US\$769,922 thousand. The expected delivery periods of the eleven aircraft are from 2024 to 2026. As of September 30, 2021, the list price had been paid in the amount of US\$32,578 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand, for details please refer to Note 21.

- d. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three 777F aircraft and exercised the option to purchase three 777F aircraft. The total list price of the six aircraft is US\$2,282,012 thousand, and the expected delivery periods are from 2020 to 2023. As of September 30, 2021, three out of the six aircraft has been delivered, the total list price of the remaining three aircraft is US\$1,172,357 thousand, and the list price has been paid in the amount of US\$234,471 thousand (recognized as prepayments for aircraft).
- e. In September 2019, Tigerair Taiwan Co., Ltd. signed a contract with Airbus S.A.S. to purchase seven A320neo aircraft and an option to purchase two A320neo aircraft. The total list price of the seven aircraft is US\$729,746 thousand, and the list price of the option to purchase two aircraft is US\$208,499 thousand. The expected delivery periods of the seven aircraft are from 2025 to 2027. As of September 30, 2021, the list price of the seven aircraft had been paid in the amount of US\$18,549 thousand (recognized as prepayments for aircraft). In addition, in December 2019, Tigerair Taiwan Co., Ltd. signed a contract with International Aero Engines Company to purchase two backup engines of A320neo aircraft. The total list price of the two engines is US\$27,345 thousand. As of September 30, 2021, the list price had been paid in the amount of US\$2,988 thousand (recognized as prepayments for aircraft), for details please refer to Note 21.

35. IMPACT OF COVID-19

Since the outbreak of the COVID-19 in January 2020, the coronavirus has become a pandemic. The pandemic has now spread around the world and most countries have not removed their travel restrictions. Because the number of inbound and outbound passengers has decreased significantly, the Group adjusts the proportion between passenger aircraft and cargo aircraft used in operations to comply with the government's epidemic prevention policy and cater to market demand. The Company reduces the frequency of passenger air services that have been severely affected, uses the passenger aircraft to support the cargo flight arrangement and expands the function of all-cargo aircraft to maximize the opportunities from air cargo business. Since March 2020, cargo has become the main source of revenue for the Group.

The Group continues to adjust the response measures according to the situation. In addition, to ensure the adequate liquidity, the Group also implements measures for human resource management such as postponing the hiring of newcomers, relaxing the application of special leave, loosening the restrictions on leave without pay, encouraging employees to take leave, adjusting working hours and salaries, etc. The Group's policies to control spending include suspension of non-urgent capital expenditures, reduction in and postponement of payments.

Also, the Group received several relief measures such as government subsidy for operation and reduction on rent. For the nine months ended September 30, 2021, because of the COVID-19 pandemic, the Group received subsidy of \$1,019,223 thousand for the airport landing fees and parking fees, etc. The subsidy for housing and land rental, and salary and interest expenses of \$844,554 thousand was recognized as other income or deduction from other expenses. The Group has obtained relief loan from the government. Refer to Note 19 for details on the amount of loan and its allocation.

The Group cooperates in contact tracing efforts, expands screening tests and fulfils other requirements to cooperate with the Central Epidemic Command Center. The Group has properly responded to and flexibly adjusted its flight schedules. Currently, the operation is mainly based on cargo flights, and passenger flights will be adjusted according to the status of crews' dispatch.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currency of entities in the Group 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:

(In Thousands of Foreign Currencies)

September 30, 2021

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 778,458	27.8552	\$ 21,684,068
EUR	19,749	32.3625	639,136
HKD	455,844	3.5778	1,630,927
JPY	3,845,893	0.2490	957,665
RMB	599,672	4.3066	2,582,565

Financial liabilities

Monetary items			
USD	2,157,688	27.8552	60,102,740
EUR	4,912	32.3625	158,955
HKD	69,559	3.5778	248,869
JPY	4,341,156	0.2490	1,080,992
RMB	109,383	4.3066	471,074

December 31, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 702,507	28.4091	\$ 19,957,598
EUR	18,250	34.8432	635,899
HKD	344,577	3.6603	1,261,257
JPY	3,475,525	0.2750	955,769
RMB	560,252	4.3440	2,433,737

Financial liabilities

Monetary items			
USD	2,208,214	28.4091	62,733,383
EUR	6,513	34.8432	226,949
HKD	73,825	3.6603	270,223
JPY	3,725,514	0.2750	1,024,509
RMB	144,376	4.3440	627,168

September 30, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 702,459	29.0698	\$ 20,420,314
EUR	17,096	34.1297	583,488
HKD	307,321	3.7481	1,151,878
JPY	3,950,045	0.2750	1,086,281
RMB	460,200	4.2644	1,962,475
<u>Financial liabilities</u>			
Monetary items			
USD	2,224,950	29.0698	64,678,772
EUR	8,058	34.1297	275,018
HKD	84,584	3.7481	317,033
JPY	2,803,819	0.2750	771,064
RMB	135,520	4.2644	577,912

For the three months ended September 30, 2021 and 2020, net foreign exchange gains (losses) were \$(17,152) thousand and \$161,378 thousand, respectively, and for the nine months ended September 30, 2021 and 2020, net foreign exchange gains (losses) were \$(19,211) thousand and \$212,336 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 entities in the Group.

37. SEPARATELY DISCLOSED ITEMS

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: Table 1 (attached)
 - 2) Endorsements/guarantees provided: Table 2 (attached)
 - 3) Marketable securities held: Table 3 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 5) Acquisitions of individual real estate at costs or price of at least NT\$300 million or 20% of the paid-in capital: None
 - 6) Disposals of individual real estate at cost or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 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) Trading in derivative instruments (Notes 7 and 31)
- b. Investments in mainland China: Table 7 (attached)
- c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (attached)
- d. Information of major shareholders: Table 9 (attached)

38. SEGMENT INFORMATION

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

For the nine months ended September 30, 2021 and 2020, financial information of segments is listed below:

	For the Nine Months Ended September 30, 2021			Total
	Air Transportation	Others	Adjustments and Write-offs	
Operating revenue	<u>\$ 88,752,596</u>	<u>\$ 5,469,501</u>	<u>\$ (2,547,457)</u>	<u>\$ 91,674,640</u>
Operation profit and loss	<u>\$ 5,052,803</u>	<u>\$ (268,245)</u>	<u>\$ (62,431)</u>	\$ 4,722,127
Interest revenue				97,677
Investment income accounted for using the equity method				(382,599)
Revenue				445,413
Financial costs				(1,850,981)
Expenses				<u>(1,761,562)</u>
Gain before income tax				<u>\$ 1,270,075</u>
Identifiable assets	<u>\$ 182,480,080</u>	<u>\$ 14,621,616</u>	<u>\$ (6,263,595)</u>	\$ 190,838,101
Investments accounted for using the equity method				1,576,556
Assets				<u>83,472,179</u>
Total assets				<u>\$ 275,886,836</u>

For the Nine Months Ended September 30, 2020

	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 82,786,966</u>	<u>\$ 5,377,233</u>	<u>\$ (2,679,849)</u>	<u>\$ 85,484,350</u>
Operation profit and loss	<u>\$ (18,730)</u>	<u>\$ (498,247)</u>	<u>\$ (63,682)</u>	\$ (580,659)
Interest revenue				242,761
Investment income accounted for using the equity method				(176,235)
Revenue				492,920
Financial costs				(2,367,841)
Expenses				<u>(170,567)</u>
Loss before income tax				<u>\$ (2,559,621)</u>
Identifiable assets	<u>\$ 190,748,755</u>	<u>\$ 15,288,594</u>	<u>\$ (6,198,148)</u>	\$ 199,839,201
Investments accounted for using the equity method				2,009,318
Assets				<u>82,176,470</u>
Total assets				<u>\$ 284,024,989</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
1	Cal-Dynasty International	Dynasty Hotel of Hawaii, Inc.	Notes receivable	Y	\$ 100,000	\$ 97,493	\$ 97,493	2.25	Short-term financing facility is necessary	\$ -	Operating cycle capital expenditure	\$ -		\$ -	\$ 141,318	\$ 282,636	

Note 1: The maximum amount of loans to others by the Group is up to 40% of the Group's net worth as stated in its latest financial statements.

Note 2: The maximum amount of loans to an individual counterparty by the Group is up to 20% of the Group's net worth as stated in its latest financial statements.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counterparty		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 Tigerair Taiwan Ltd.	100% subsidiary 82.27% subsidiary by direct and indirect holdings	\$ 12,658,202 12,658,202	\$ 3,850,000 2,671,771	\$ 3,850,000 2,604,791	\$ 1,663,320 259,894	\$ - -	6.08 4.12	\$ 31,645,506 31,645,506	Yes Yes	No No	No No
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	12,658,202	2,000,000	2,000,000	1,400,000	-	3.16	31,645,506	Yes	No	No

Note 1: Based on the Group's guidelines, the maximum amount of guarantee to an individual counterparty 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 shareholders the Group's' equity.

TABLE 3

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2021

(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, 2021				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 - non-current	1,359,368	\$ 49,452	13.59	\$ 54,398	Note 1
	Everest Investment Holdings Ltd. - preferred shares	-	Financial assets at fair value through other comprehensive income - non-current	135,937	4,945	-	-	-
	Chung Hua Express Co.	-	Financial assets at fair value through other comprehensive income - non-current	1,100,000	27,181	11.00	27,181	-
	Jardine Air Terminal Services	-	Financial assets at fair value through profit or loss - current	12,000,000	-	15.00	-	-
	The Grand Hi Lai Hotel	-	Financial assets at fair value through profit or loss - current	4,021	-	0.02	-	-
Mandarin Airlines	<u>Shares</u> China Airlines	Parent company	Financial assets at fair value through other comprehensive income - non-current	2,074,628	35,684	-	35,684	-
Cal-Asia Investment	<u>Shares</u> Taikoo (Xiamen) Landing Gear Services	-	Financial assets at fair value through profit or loss - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at fair value through other comprehensive income - non-current	-	9,601	5.45	9,601	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficiary certificates</u> Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	730,686	7,634	-	7,634	-
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	308,094	55,499	-	55,499	-
Taiwan Airport Services	<u>Shares</u> TransAsia Airways	-	Financial assets at fair value through profit or loss - current	2,277,786	-	0.40	-	-
Dynasty Aerotech International Corp.	<u>Beneficiary certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,778	-	4,778	-
Kaohsiung Catering Services	<u>Beneficiary certificates</u> Prudential Financial Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,407,832	86,437	-	86,437	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,106,807	15,131	-	15,131	-
Tiger Taiwan Co., Ltd.	<u>Government bond</u> Philippines government bond	-	Financial assets at amortized cost - current	-	1,550	Not applicable	1,550	-

(Continued)

Note 1: The subsidiary's net asset value was \$54,398 thousand, which included ordinary shares and preference shares as of September 30, 2021.

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(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	\$ 553,919	0.74	30 days	\$ -	-	\$ (72,641)	(4.32)	-
	Cal Park	Subsidiary	Purchase	157,276	0.21	2 months	-	-	-	-	-
	China Pacific Catering Services	Equity-method investee	Purchase	148,552	0.20	90 days	-	-	(48,915)	(2.91)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	794,083	1.06	40 days	-	-	(213,209)	(12.69)	-
	Dynasty Aerotech International Corp.	Subsidiary	Purchase	268,972	0.36	2 months	-	-	(53,404)	(3.18)	-
	Mandarin Airlines	Subsidiary	Purchase	273,533	0.37	2 months	-	-	(143,775)	(1.25)	-
	Eastern United International Logistics (Holdings) Ltd.	Equity-method investee	Purchase	310,112	0.42	2 months	-	-	(49,609)	(2.95)	-
	Global Sky Express	Subsidiary	Sale	(144,496)	(0.17)	15 days	-	-	8,040	0.07	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Same parent company	Purchase	146,436	5.85	1 months	-	-	(7,076)	(14.27)	-

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, 2021

(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		
Mandarin Airlines	China Airlines	Parent company	\$ 143,775	Note	\$ -	-	\$ 117,938	\$ -
Taoyuan International Airport Service	China Airlines	Parent company	213,209	3.75	-	-	128,789	-

Note: Account 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, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2021			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				September 30, 2021	December 31, 2020	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	\$ 1,636,211	\$ 7,734	\$ 39,593	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	4,039,140	2,042,368	387,831,234	96.96	2,202,180	(1,119,850)	(1,053,294)	Notes 1 and 4
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,601,425	363,895	196,492	-
	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	1,170,834	4,911	5,787	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	533,279	(318,980)	(162,680)	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	492,251	(225,381)	(110,437)	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	496,005	37,142	37,142	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	193,849	(41,556)	(39,034)	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	28,174	(1,224,926)	(244,985)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	138,810	(128,192)	(60,699)	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	443,738	(102,372)	(64,464)	Note 5
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	329,831	(74,985)	(75,523)	Note 4
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	121,458	(50,718)	(27,895)	-
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	131,569	33,281	33,312	Note 4
	Yestrip	Taipei, Taiwan	Travel business	-	26,265	-	100.00	-	-	-	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	3,493	(6,512)	(1,302)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,979	5,145	1,286	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	5,640,197	3,109,907	313,631,656	78.41	3,450,745	(1,638,738)	(1,245,666)	Note 4
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	594,253	(105,557)	(105,539)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Composite repair and manufacturing business	37,975	37,975	3,797,500	49.00	33,484	(8,741)	(4,283)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	154,330	15,433,000	3.86	169,802	(1,638,738)	(63,227)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	3,157	(128,192)	(1,381)	-
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	59,620	25,656	8,980	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	394,269	24,220	24,220	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,871	-	-	-

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: The difference is due to lease arrangement between consolidated entities.

Note 5: The difference is due to acquisition.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

(In Thousands of 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, 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2021	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of September 30, 2021	Accumulated Inward Remittance of Earnings as of September 30, 2021
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,095,952 (RMB 254,480)	Indirect (Note 1)	\$ 116,601 (US\$ 4,186)	\$ -	\$ -	\$ 116,601 (US\$ 4,186)	\$ 109,576 (RMB 25,290)	14.00	\$ 13,859 (RMB 3,541)	\$ 251,560 (RMB 58,413)	\$ 98,511 (US\$ 3,537) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,293 (RMB 14,000)	Indirect (Note 1)	54,246 (US\$ 1,947)	-	-	54,246 (US\$ 1,947)	75,243 (RMB 17,366)	14.00	9,832 (RMB 2,431)	144,158 (RMB 33,474)	43,469 (US\$ 1,561) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,314,485 (US\$ 83,090)	Indirect (Note 1)	59,922 (US\$ 2,151)	-	-	59,922 (US\$ 2,151)		2.59		-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	324,875 (US\$ 11,663)	Indirect (Note 1)	17,716 (US\$ 636)	-	-	17,716 (US\$ 636)		5.45		9,601 (RMB 2,229)	9,931 (US\$ 357)

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$248,485 (US\$8,920)	\$607,076 (Note 3)	\$37,974,608 (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, 2021	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2021	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of September 30, 2021	Accumulated Repatriation of Investment Income as of September 30, 2021
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,095,952 (RMB 254,480)	Indirect (Note 5)	\$ 111,932 (US\$ 4,018)	\$ -	\$ -	\$ 111,932 (US\$ 4,018)	\$ 109,576 (RMB 25,290)	14	\$ 15,341 (RMB 3,541)	\$ 249,611 (RMB 57,960)	\$ 126,494 (US\$ 4,541)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,293 (RMB 14,000)	Indirect (Note 5)	53,670 (US\$ 1,927)	-	-	53,670 (US\$ 1,927)	75,243 (RMB 17,366)	14	10,534 (RMB 2,431)	143,848 (RMB 33,401)	58,268 (US\$ 2,092)

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$165,602 (US\$5,945)	\$165,602 (US\$5,945)	\$175,895 (Note 6)

Note 1: The Company invested in Cal-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: As of September 30, 2021, the inward remittance of earnings amounted to US\$3,536,561 and US\$1,560,538.

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

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

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(In Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount (Note 2)	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Mandarin Airlines	a	Air transportation cost	\$ 248,951	The same as ordinary transactions	0.27
		Global Sky Express	a	Cargo revenue	142,800	The same as ordinary transactions	0.16
		Taoyuan International Airport Service	a	Terminal and landing cost	794,083	The same as ordinary transactions	0.87
		Dynasty Aerotech International Corp.	a	Terminal and landing cost	268,972	The same as ordinary transactions	0.29
		Taiwan Air Cargo Terminal	a	Other operating cost	553,919	The same as ordinary transactions	0.60
		Cal Park	a	Other operating cost	157,276	The same as ordinary transactions	0.17
		Taoyuan International Airport Service	a	Accounts payable - related parties	213,209	The same as ordinary transactions	0.08
		Mandarin Airlines	a	Accounts payable - related parties	143,775	The same as ordinary transactions	0.05
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	553,919	The same as ordinary transactions	0.60
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	248,951	The same as ordinary transactions	0.27
		China Airlines, Ltd.	b	Accounts receivable - related parties	143,775	The same as ordinary transactions	0.05
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	794,083	The same as ordinary transactions	0.87
		China Airlines, Ltd.	b	Accounts receivable - related parties	213,209	The same as ordinary transactions	0.08
4	Dynasty Aerotech International Corp.	China Airlines, Ltd.	b	Operating revenue	268,972	The same as ordinary transactions	0.29
5	Cal Park	China Airlines, Ltd.	b	Operating revenue	157,276	The same as ordinary transactions	0.17
6	Global Sky Express	China Airlines, Ltd.	b	Operating cost	142,800	The same as ordinary transactions	0.16

Note 1: Three categories 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 eliminated in the consolidated financial statements.

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

TABLE 9**CHINA AIRLINES, LTD. AND SUBSIDIARIES****INFORMATION OF MAJOR STOCKHOLDERS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
China Aviation Development Foundation (CADF)	1,867,341,935	32.53
National Development Fund (NDF)	519,750,519	9.05

Note 1: The table presents information provided by the Taiwan Depository & Clearing Corporation on shareholders holding greater than 5% of the Company's ordinary shares that have completed the process of dematerialized registration and delivery as of the last business day for the current quarter. Number of shares in the consolidated financial report may differ from actual number of dematerialized securities that have completed the process of registration and delivery due to different basis of computation.

Note 2: If the shareholders transferred shares for trust, the accounts are disclosed separately by the principal who opened a trust account for the subcontractor. Insiders' shares of shareholders who held more than 10% of shares based on the laws and regulations of securities transaction include those held by the shareholders plus the shares for trust while the shareholders have controlling interest over trusted property. For the shareholder's rights in filing information of insiders, please refer to the Market Observation Post System website.