

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 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 June 30, 2021 and 2020, the related consolidated statements of comprehensive income for the three months ended June 30, 2021 and 2020 and for the six months ended June 30, 2021 and 2020, the consolidated statements of changes in equity and cash flows for the six 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\$11,137,205 thousand and NT\$11,344,058 thousand, which represented 4.16% and 3.98% of the consolidated total assets as of June 30, 2021 and 2020, respectively; and for the three months ended June 30, 2021 and 2020 and for the six months ended June 30, 2021 and 2020, the total revenue of these subsidiaries were NT\$11,588 thousand, NT\$19,215 thousand, NT\$26,556 thousand and NT\$1,638,292 thousand, which represented 0.04%, 0.07%, 0.05% and 2.78% of the consolidated total revenue, respectively.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards 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 June 30, 2021 and 2020, the combined total assets of these non-significant subsidiaries were NT\$20,512,269 thousand and NT\$22,064,911 thousand, respectively, representing 7.65% and 7.75%, respectively, of the consolidated total assets, and combined total liabilities of these non-significant subsidiaries were

NT\$11,115,392 thousand and NT\$11,850,552 thousand, respectively, representing 5.41% and 5.24%, respectively, of the consolidated total liabilities; for the three months ended June 30, 2021 and 2020 and for the six months ended June 30, 2021 and 2020, the amounts of the combined comprehensive income (loss) of these non-significant subsidiaries were NT\$(64,240) thousand, NT\$(251,695) thousand, NT\$(233,155) thousand and NT\$(355,476) thousand, respectively, representing (100.31%), (9.04%), 16.38% and (26.15%), respectively, of the consolidated total comprehensive income. As of June 30, 2021 and 2020, the aforementioned investments accounted for using the equity method were NT\$1,663,238 thousand and NT\$2,056,661 thousand, respectively; and for the three months ended June 30, 2021 and 2020 and for the six months ended June 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\$(215,779) thousand, NT\$(94,728) thousand, NT\$(297,453) thousand and NT\$(119,222) 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 June 30, 2021 and 2020, and its consolidated financial performance for the three months ended June 30, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the six months ended June 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, Shiuh Ran.

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 5, 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 | June 30, 2021 (Reviewed) | | December 31, 2020 (Audited) | | June 30, 2020 (Reviewed) | |
|---|-----------------------------|------------|--------------------------------|------------|-----------------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Notes 4, 6 and 31) | \$ 29,632,606 | 11 | \$ 27,125,937 | 10 | \$ 34,217,741 | 12 |
| Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31) | 250,248 | - | 274,761 | - | 498,746 | - |
| Financial assets at amortized cost - current (Notes 4, 9 and 31) | 1,570,959 | 1 | 6,551,693 | 2 | 1,640,422 | 1 |
| Financial assets for hedging - current (Notes 4 and 31) | 659,775 | - | 7,613,636 | 3 | 1,576 | - |
| Notes and accounts receivable, net (Notes 4, 5, 10 and 31) | 9,399,580 | 4 | 9,697,511 | 4 | 8,362,976 | 3 |
| Notes and accounts receivable - related parties (Notes 31 and 32) | 2,715 | - | 1,667 | - | 1,314 | - |
| Other receivables (Note 31) | 730,312 | - | 801,134 | - | 566,495 | - |
| Current tax assets (Notes 4 and 28) | 65,354 | - | 67,549 | - | 83,711 | - |
| Inventories, net (Notes 4 and 11) | 8,778,765 | 3 | 8,788,105 | 3 | 7,898,734 | 3 |
| Non-current assets held for sale (Notes 4 and 12) | 89,956 | - | 89,296 | - | 69,287 | - |
| Other current assets (Note 18) | 1,026,120 | - | 861,179 | - | 2,400,780 | 1 |
| Total current assets | <u>52,206,390</u> | <u>19</u> | <u>61,872,468</u> | <u>22</u> | <u>55,741,782</u> | <u>20</u> |
| NON-CURRENT ASSETS | | | | | | |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 31) | 151,678 | - | 163,746 | - | 133,369 | - |
| Financial assets at amortized cost (Notes 4, 9 and 31) | 409,372 | - | 311,596 | - | 344,538 | - |
| Investments accounted for using the equity method (Notes 4 and 14) | 1,663,238 | 1 | 1,970,802 | 1 | 2,056,661 | 1 |
| Property, plant and equipment (Notes 4, 5, 15 and 33) | 135,722,383 | 51 | 141,481,694 | 50 | 138,715,341 | 49 |
| Right-of-use assets (Notes 4, 21 and 33) | 57,219,733 | 21 | 59,861,537 | 21 | 66,113,940 | 23 |
| Investment properties (Notes 4 and 16) | 2,074,664 | 1 | 2,074,798 | 1 | 2,074,932 | 1 |
| Other intangible assets (Notes 4 and 17) | 990,794 | 1 | 1,076,351 | - | 1,141,368 | - |
| Deferred tax asset (Notes 4, 5 and 28) | 6,165,500 | 2 | 6,028,200 | 2 | 5,520,819 | 2 |
| Other non-current assets (Notes 18, 21, 31, 33 and 34) | 11,386,583 | 4 | 9,352,892 | 3 | 12,871,410 | 4 |
| Total non-current assets | <u>215,783,945</u> | <u>81</u> | <u>222,321,616</u> | <u>78</u> | <u>228,972,378</u> | <u>80</u> |
| TOTAL | <u>\$ 267,990,335</u> | <u>100</u> | <u>\$ 284,194,084</u> | <u>100</u> | <u>\$ 284,714,160</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Short-term loans (Notes 19 and 31) | \$ 2,132,000 | 1 | \$ 1,932,000 | 1 | \$ 2,150,000 | 1 |
| Short-term bills payable (Note 19) | 1,799,747 | 1 | 8,088,882 | 3 | 8,248,702 | 3 |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 31) | - | - | - | - | 2,491 | - |
| Financial liabilities for hedging - current (Notes 4, 21 and 31) | 8,296,192 | 3 | 8,129,752 | 3 | 8,566,992 | 3 |
| Contract liabilities - current (Notes 4, 5 and 23) | 3,363,165 | 1 | 3,569,360 | 1 | 6,085,481 | 2 |
| Notes and accounts payable (Note 31) | 1,204,007 | 1 | 1,354,237 | 1 | 2,128,256 | 1 |
| Notes and accounts payable - related parties (Note 32) | 92,732 | - | 128,567 | - | 92,592 | - |
| Other payables (Notes 22 and 31) | 8,348,839 | 3 | 8,306,257 | 3 | 8,070,297 | 3 |
| Current tax liabilities (Notes 4 and 28) | 122,730 | - | 216,602 | - | 154,214 | - |
| Lease liabilities - current (Notes 4 and 21) | 2,516,784 | 1 | 2,525,957 | 1 | 2,537,067 | 1 |
| Provisions - current (Notes 4, 24 and 31) | 2,280,252 | 1 | 164,800 | - | 330,617 | - |
| Bonds payable and put options of convertible bonds - current portion (Notes 4, 20 and 31) | 3,800,000 | 1 | 11,982,859 | 4 | 11,542,384 | 4 |
| Loans and debts - current portion (Notes 19, 31 and 33) | 13,796,182 | 5 | 15,234,374 | 5 | 17,527,332 | 6 |
| Other current liabilities (Note 31) | 1,102,714 | - | 1,016,068 | - | 1,212,111 | - |
| Total current liabilities | <u>48,855,344</u> | <u>18</u> | <u>62,649,715</u> | <u>22</u> | <u>68,648,536</u> | <u>24</u> |
| NON-CURRENT LIABILITIES | | | | | | |
| Financial liabilities for hedging - non-current (Notes 4, 21 and 31) | 29,006,126 | 11 | 32,455,333 | 11 | 38,661,467 | 14 |
| Bonds payable - non-current (Notes 4, 20 and 31) | 17,403,190 | 7 | 10,300,000 | 4 | 14,100,000 | 5 |
| Loans and debts - non-current (Notes 19, 31 and 33) | 70,694,482 | 26 | 77,288,330 | 27 | 65,052,216 | 23 |
| Contract liabilities - non-current (Notes 4 and 23) | 1,161,020 | 1 | 1,761,104 | 1 | 2,171,317 | 1 |
| Provisions - non-current (Notes 4, 24 and 31) | 14,178,127 | 5 | 14,369,486 | 5 | 12,592,800 | 4 |
| Current tax liabilities - non-current (Notes 4 and 28) | 58,121 | - | 87,181 | - | 116,242 | - |
| Deferred tax liabilities (Notes 4 and 28) | 978,137 | - | 1,023,084 | - | 662,612 | - |
| Lease liabilities - non-current (Notes 4 and 21) | 12,909,639 | 5 | 13,279,792 | 5 | 14,568,636 | 5 |
| Accrued pension costs (Notes 4, 5 and 25) | 9,690,663 | 4 | 9,737,741 | 4 | 9,286,159 | 3 |
| Other non-current liabilities (Note 31) | 526,519 | - | 530,745 | - | 449,465 | - |
| Total non-current liabilities | <u>156,606,024</u> | <u>59</u> | <u>160,832,796</u> | <u>57</u> | <u>157,660,914</u> | <u>55</u> |
| Total liabilities | <u>205,461,368</u> | <u>77</u> | <u>223,482,511</u> | <u>79</u> | <u>226,309,450</u> | <u>79</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26) | | | | | | |
| Share capital | 56,713,178 | 21 | 54,209,846 | 19 | 54,209,846 | 19 |
| Capital surplus | 1,959,720 | 1 | 1,187,327 | - | 1,187,155 | - |
| Retained earnings (accumulated deficit) | | | | | | |
| Legal reserve | - | - | - | - | - | - |
| Special reserve | - | - | - | - | - | - |
| Unappropriated retained earnings (accumulated deficit) | (1,712,509) | (1) | (350,581) | - | (1,315,618) | - |
| Total retained earnings (accumulated deficit) | <u>(1,712,509)</u> | <u>(1)</u> | <u>(350,581)</u> | <u>-</u> | <u>(1,315,618)</u> | <u>-</u> |
| Other equity | 2,903,255 | 1 | 2,543,766 | 1 | 1,397,973 | 1 |
| Treasury shares | (30,875) | - | (30,875) | - | (30,875) | - |
| Total equity attributable to owners of the Company | 59,832,769 | 22 | 57,559,483 | 20 | 55,448,481 | 20 |
| NON-CONTROLLING INTERESTS (Note 26) | <u>2,696,198</u> | <u>1</u> | <u>3,152,090</u> | <u>1</u> | <u>2,956,229</u> | <u>1</u> |
| Total equity | <u>62,528,967</u> | <u>23</u> | <u>60,711,573</u> | <u>21</u> | <u>58,404,710</u> | <u>21</u> |
| TOTAL | <u>\$ 267,990,335</u> | <u>100</u> | <u>\$ 284,194,084</u> | <u>100</u> | <u>\$ 284,714,160</u> | <u>100</u> |

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

(With Deloitte & Touche auditors' review report dated August 5, 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 June 30 | | | | For the Six Months Ended June 30 | | | |
|---|------------------------------------|------------|-------------------|------------|----------------------------------|------------|--------------------|------------|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| REVENUE (Notes 4, 27 and 32) | \$ 29,372,982 | 100 | \$ 26,315,522 | 100 | \$ 57,200,638 | 100 | \$ 58,872,652 | 100 |
| COSTS (Notes 4, 11, 17, 21, 24, 25, 27 and 32) | <u>26,539,641</u> | <u>90</u> | <u>21,650,702</u> | <u>82</u> | <u>52,699,429</u> | <u>92</u> | <u>53,986,964</u> | <u>92</u> |
| GROSS PROFIT | 2,833,341 | 10 | 4,664,820 | 18 | 4,501,209 | 8 | 4,885,688 | 8 |
| OPERATING EXPENSES (Notes 4, 25 and 27) | <u>1,627,134</u> | <u>6</u> | <u>1,917,054</u> | <u>8</u> | <u>3,764,180</u> | <u>7</u> | <u>5,108,778</u> | <u>8</u> |
| OPERATING PROFIT (LOSS) | <u>1,206,207</u> | <u>4</u> | <u>2,747,766</u> | <u>10</u> | <u>737,029</u> | <u>1</u> | <u>(223,090)</u> | <u>-</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | | | | | |
| Other income (Note 27) | 154,726 | 1 | 199,574 | 1 | 250,546 | - | 363,204 | - |
| Other gains and losses (Notes 15 and 27) | (1,074,363) | (4) | 83,802 | - | (1,293,796) | (2) | (70,288) | - |
| Finance costs (Notes 27 and 31) | (621,078) | (2) | (796,493) | (3) | (1,278,461) | (2) | (1,617,165) | (3) |
| Share of the profit or loss of associates and joint ventures (Note 14) | <u>(215,779)</u> | <u>(1)</u> | <u>(94,728)</u> | <u>-</u> | <u>(297,453)</u> | <u>-</u> | <u>(119,222)</u> | <u>-</u> |
| Total non-operating income and expenses | <u>(1,756,494)</u> | <u>(6)</u> | <u>(607,845)</u> | <u>(2)</u> | <u>(2,619,164)</u> | <u>(4)</u> | <u>(1,443,471)</u> | <u>(3)</u> |
| PROFIT (LOSS) BEFORE INCOME TAX | (550,287) | (2) | 2,139,921 | 8 | (1,882,135) | (3) | (1,666,561) | (3) |
| INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 28) | <u>(64,621)</u> | <u>-</u> | <u>(112,692)</u> | <u>(1)</u> | <u>(179,922)</u> | <u>-</u> | <u>(108,609)</u> | <u>(1)</u> |
| NET INCOME (LOSS) FOR THE PERIOD | <u>(485,666)</u> | <u>(2)</u> | <u>2,252,613</u> | <u>9</u> | <u>(1,702,213)</u> | <u>(3)</u> | <u>(1,557,952)</u> | <u>(2)</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 | (53,890) | - | (30,722) | - | (47,456) | - | (10,817) | - |
| Unrealized gain on investments in equity instruments at fair value through other comprehensive income | (9,567) | - | (76,376) | - | (11,986) | - | (73,807) | - |
| Income tax related to items that will not be reclassified subsequently to profit or loss (Note 28) | <u>13,065</u> | <u>-</u> | <u>20,126</u> | <u>-</u> | <u>12,689</u> | <u>-</u> | <u>16,021</u> | <u>-</u> |
| | <u>(50,392)</u> | <u>-</u> | <u>(86,972)</u> | <u>-</u> | <u>(46,753)</u> | <u>-</u> | <u>(68,603)</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 June 30 | | | | For the Six Months Ended June 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) | \$ (40,113) | - | \$ (38,937) | - | \$ (32,950) | - | \$ (57,000) | - |
| Gain (loss) on hedging instruments not subject to basis adjustment (Notes 4, 21, 26 and 33) | 791,278 | 3 | 815,915 | 3 | 440,776 | 1 | 392,976 | - |
| Income tax related to items that may be reclassified subsequently to profit or loss (Note 28) | <u>(151,063)</u> | <u>(1)</u> | <u>(157,451)</u> | <u>(1)</u> | <u>(81,997)</u> | <u>-</u> | <u>(68,646)</u> | <u>-</u> |
| | <u>600,102</u> | <u>2</u> | <u>619,527</u> | <u>2</u> | <u>325,829</u> | <u>1</u> | <u>267,330</u> | <u>-</u> |
| Other comprehensive income (loss) for the period, net of income tax | <u>549,710</u> | <u>2</u> | <u>532,555</u> | <u>2</u> | <u>279,076</u> | <u>1</u> | <u>198,727</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | <u>\$ 64,044</u> | <u>-</u> | <u>\$ 2,785,168</u> | <u>11</u> | <u>\$ (1,423,137)</u> | <u>(2)</u> | <u>\$ (1,359,225)</u> | <u>(2)</u> |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the Company | \$ (342,552) | (1) | \$ 2,459,448 | 10 | \$ (1,361,928) | (2) | \$ (1,313,885) | (2) |
| Non-controlling interests | <u>(143,114)</u> | <u>(1)</u> | <u>(206,835)</u> | <u>(1)</u> | <u>(340,285)</u> | <u>(1)</u> | <u>(244,067)</u> | <u>(1)</u> |
| | <u>\$ (485,666)</u> | <u>(2)</u> | <u>\$ 2,252,613</u> | <u>9</u> | <u>\$ (1,702,213)</u> | <u>(3)</u> | <u>\$ (1,557,952)</u> | <u>(3)</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the Company | \$ 208,381 | 1 | \$ 2,995,035 | 12 | \$ (1,082,045) | (2) | \$ (1,112,145) | (2) |
| Non-controlling interests | <u>(144,337)</u> | <u>(1)</u> | <u>(209,867)</u> | <u>(1)</u> | <u>(341,092)</u> | <u>-</u> | <u>(247,080)</u> | <u>-</u> |
| | <u>\$ 64,044</u> | <u>-</u> | <u>\$ 2,785,168</u> | <u>11</u> | <u>\$ (1,423,137)</u> | <u>(2)</u> | <u>\$ (1,359,225)</u> | <u>(2)</u> |
| EARNINGS (LOSS) PER SHARE (NEW TAIWAN DOLLARS; Note 29) | | | | | | | | |
| Basic | <u>\$(0.06)</u> | | <u>\$ 0.45</u> | | <u>\$(0.25)</u> | | <u>\$(0.24)</u> | |
| Diluted | <u>\$(0.06)</u> | | <u>\$ 0.42</u> | | <u>\$(0.25)</u> | | <u>\$(0.24)</u> | |

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

(With Deloitte & Touche auditors' review report dated August 5, 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 Deficit) | 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 |
| 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 six months ended June 30, 2020 | - | - | - | - | (1,313,885) | - | - | - | - | (1,313,885) | (244,067) | (1,557,952) |
| Other comprehensive income for the six months ended June 30, 2020, net of income tax | - | - | - | - | - | (43,304) | (59,949) | 304,993 | - | 201,740 | (3,013) | 198,727 |
| Total comprehensive income (loss) for the six months ended June 30, 2020 | - | - | - | - | (1,313,885) | (43,304) | (59,949) | 304,993 | - | (1,112,145) | (247,080) | (1,359,225) |
| 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 JUNE 30, 2020 | <u>\$ 54,209,846</u> | <u>\$ 1,187,155</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,315,618)</u> | <u>\$ (98,011)</u> | <u>\$ 47,313</u> | <u>\$ 1,448,671</u> | <u>\$ (30,875)</u> | <u>\$ 55,448,481</u> | <u>\$ 2,956,229</u> | <u>\$ 58,404,710</u> |
| 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 |
| Net loss for the six months ended June 30, 2021 | - | - | - | - | (1,361,928) | - | - | - | - | (1,361,928) | (340,285) | (1,702,213) |
| Other comprehensive loss for the six months ended June 30, 2021, net of income tax | - | - | - | - | - | (25,678) | (8,787) | 314,348 | - | 279,883 | (807) | 279,076 |
| Total comprehensive income (loss) for the six months ended June 30, 2021 | - | - | - | - | (1,361,928) | (25,678) | (8,787) | 314,348 | - | (1,082,045) | (341,092) | (1,423,137) |
| Equity component of convertible bonds issued by the Company | - | 188,862 | - | - | - | - | - | - | - | 188,862 | - | 188,862 |
| Convertible bonds converted to ordinary shares | 2,503,332 | 583,531 | - | - | - | - | - | - | - | 3,086,863 | - | 3,086,863 |
| Cash dividends from subsidiaries paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (114,800) | (114,800) |
| BALANCE AT JUNE 30, 2021 | <u>\$ 56,713,178</u> | <u>\$ 1,959,720</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,712,509)</u> | <u>\$ (159,930)</u> | <u>\$ 62,572</u> | <u>\$ 3,000,613</u> | <u>\$ (30,875)</u> | <u>\$ 59,832,769</u> | <u>\$ 2,696,198</u> | <u>\$ 62,528,967</u> |

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

(With Deloitte & Touche auditors' review report dated August 5, 2021)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | For the Six Months Ended | |
|--|--------------------------|--------------------|
| | June 30 | |
| | 2021 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before income tax | \$ (1,882,135) | \$ (1,666,561) |
| Adjustments for: | | |
| Depreciation expenses | 15,443,129 | 16,021,382 |
| Amortization expenses | 109,201 | 105,557 |
| Expected credit loss recognized on trade receivables | 18,988 | 2,522 |
| Net loss (gain) on fair value changes of financial assets and liabilities at fair value through profit or loss | 225 | (1,930) |
| Interest income | (74,689) | (180,111) |
| Dividend income | - | (7,417) |
| Share of loss (profit) of associates and joint ventures | 297,453 | 119,222 |
| Loss (gain) on disposal of property, plant and equipment | 989,855 | (6,880) |
| Loss on disposal of investments | 540 | - |
| Loss on inventory and property, plant and equipment | 742,917 | 325,297 |
| Net gain on foreign currency exchange | (984,238) | (252,373) |
| Finance costs | 1,278,461 | 1,617,165 |
| Loss on sale and leaseback transactions | 139,697 | - |
| Recognition of provisions | 2,982,807 | 3,294,263 |
| Others | 75 | 879 |
| Changes in operating assets and liabilities | | |
| Financial assets mandatorily classified as at fair value through profit or loss | 16,273 | 15,820 |
| Financial liabilities at fair value through profit or loss | - | (9,258) |
| Notes and accounts receivable | 352,339 | 187,671 |
| Accounts receivable - related parties | (93,429) | 756,951 |
| Other receivables | 335,736 | 146,089 |
| Inventories | 6,742 | 830,140 |
| Other current assets | (178,883) | 681,984 |
| Notes and accounts payable | (234,040) | 196,379 |
| Accounts payable - related parties | (66,721) | (1,219,579) |
| Other payables | 157,119 | (4,600,240) |
| Contract liabilities | (806,279) | (15,040,287) |
| Provisions | (829,637) | (612,080) |
| Other current liabilities | 81,384 | (2,615,031) |
| Accrued pension liabilities | (47,078) | (148,876) |
| Other liabilities | 5,579 | (27,267) |
| Cash generated from (used in) operations | 17,761,391 | (2,086,569) |
| Interest received | 73,887 | 175,460 |
| Dividends received | - | 46,012 |
| Interest paid | (1,237,569) | (1,730,469) |
| Income tax paid | (190,873) | (145,226) |
| Net cash generated from (used in) operating activities | <u>16,406,836</u> | <u>(3,740,792)</u> |

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | For the Six Months Ended June 30 | |
|---|-------------------------------------|----------------------|
| | 2021 | 2020 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at amortized cost | \$ (952,994) | \$ (1,514,154) |
| Disposal of financial assets at amortized cost | 6,022,948 | 1,683,931 |
| Proceeds from sale of financial assets for hedging | 7,246,132 | - |
| Payments for property, plant and equipment | (638,005) | (479,254) |
| Proceeds from disposal of property, plant and equipment | 190,639 | 12,310 |
| Increase in refundable deposits | (83,492) | (62,023) |
| Decrease in refundable deposits | 37,214 | 34,426 |
| Increase in prepayments for equipment | (9,819,933) | (2,586,640) |
| Increase in computer software costs | (23,646) | (64,235) |
| Decrease in restricted assets | (129,793) | 8,992 |
| Net cash inflow on disposal of subsidiary | <u>942</u> | <u>-</u> |
| Net cash generated from (used in) investing activities | <u>1,850,012</u> | <u>(2,966,647)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term debts | 200,000 | 1,770,000 |
| (Decrease) increase in short-term bills payable | (6,289,135) | 8,248,702 |
| Proceeds from issuance of bonds payable | 4,500,000 | - |
| Repayments of bonds payable | (2,500,000) | (6,450,000) |
| Proceeds from long-term debts | 685,055 | 30,589,678 |
| Repayments of long-term debts | (8,743,132) | (15,673,913) |
| Repayments of the principal portion of lease liabilities | (5,174,133) | (5,434,431) |
| Proceeds from guarantee deposits received | 128,246 | 42,027 |
| Refund of guarantee deposits received | (128,012) | (107,945) |
| Proceeds from sale and leaseback transactions | 1,682,321 | - |
| Cash dividends paid to non-controlling interests | (114,800) | (375,036) |
| Proceeds from disposal of treasury shares | <u>-</u> | <u>6,854</u> |
| Net cash (used in) generated from financing activities | <u>(15,753,590)</u> | <u>12,615,936</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | <u>3,411</u> | <u>(150,284)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 2,506,669 | 5,758,213 |
| 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>\$ 29,632,606</u> | <u>\$ 34,217,741</u> |

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

(With Deloitte & Touche auditors' review report dated August 5, 2021)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 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 June 30, 2021, December 31, 2020 and June 30, 2020, CADF and NDF held a combined 42.09%, 44.03% and 44.03%, respectively of the Company’s shares.

2. APPROVAL OF CONSOLIDATED 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 August 5, 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 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 for the consolidated financial statements for the year ended December 31, 2020.

Statement of Compliance

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

Basis of 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.

Business Combinations

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

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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|----------------------|----------------------|----------------------|
| Cash on hand and revolving funds | \$ 315,822 | \$ 333,677 | \$ 118,222 |
| Checking accounts and demand deposits | 13,822,816 | 17,690,186 | 16,589,082 |
| Cash equivalent | | | |
| Time deposits with original maturities of less than three months | 13,265,709 | 6,980,493 | 15,220,214 |
| Repurchase agreements collateralized by bonds | <u>2,228,259</u> | <u>2,121,581</u> | <u>2,290,223</u> |
| | <u>\$ 29,632,606</u> | <u>\$ 27,125,937</u> | <u>\$ 34,217,741</u> |

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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|--------------------------|------------------------------|--------------------------|
| Bank balance | 0%-1.90% | 0%-1.90% | 0%-1.90% |
| Time deposits with original maturities of less than three months | 0.07%-0.77% | 0.24%-2.20% | 0.34%-2.80% |
| Repurchase agreements collateralized by bonds | 0.20%-0.40% | 0.22%-0.55% | 0.30%-1.10% |

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 |
|-------------------|----------------------|--|-----------------------|
| June 30, 2021 | 2021.8.2 | Financial assets for hedging - current | \$ 640,669 |
| December 31, 2020 | 2021.1.4-2021.11.1 | Financial assets for hedging - current | 7,613,636 |

Impact on other comprehensive income (loss)

| | Recognized in Other Comprehensive Income (Loss) |
|--|--|
| For the six months ended June 30, 2021 | \$ (47,456) |
| For the three months ended June 30, 2021 | (53,890) |

For the six months ended June 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)

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---|--------------------------|------------------------------|--------------------------|
| <u>Financial assets - current</u> | | | |
| Financial assets mandatorily classified as at FVTPL | | | |
| Non-derivative financial assets | | | |
| Beneficiary certificates | <u>\$ 250,248</u> | <u>\$ 274,761</u> | <u>\$ 498,746</u> |
| <u>Financial liabilities - current</u> | | | |
| Financial liabilities held for trading | | | |
| Derivative financial instruments (not under hedge accounting) | | | |
| Foreign exchange forward contracts | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,491</u> |

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

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|-----------------------|-----------------|----------------------|---|
| <u>June 30, 2020</u> | | | |
| Buy forward contracts | NTD/USD | 2020.7.23-2020.7.31 | NTD59,347/USD2,000 |

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|----------------------|--------------------------|------------------------------|--------------------------|
| <u>Non-current</u> | | | |
| Foreign investments | | | |
| Unlisted shares | \$ 117,968 | \$ 134,042 | \$ 111,018 |
| Domestic investments | | | |
| Unlisted shares | <u>33,710</u> | <u>29,704</u> | <u>22,351</u> |
| | <u>\$ 151,678</u> | <u>\$ 163,746</u> | <u>\$ 133,369</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 investment. 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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|--------------------------|------------------------------|--------------------------|
| <u>Current</u> | | | |
| Time deposits with original maturities of more than 3 months (e) | \$ 1,569,341 | \$ 6,551,693 | \$ 1,640,121 |
| Government bonds | <u>1,618</u> | <u>-</u> | <u>301</u> |
| | <u>\$ 1,570,959</u> | <u>\$ 6,551,693</u> | <u>\$ 1,640,422</u> |
| <u>Non-current</u> | | | |
| Time deposits with original maturities of more than 1 year | <u>\$ 409,372</u> | <u>\$ 311,596</u> | <u>\$ 344,538</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 June 30, 2021, December 31, 2020 and June 30, 2020, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE, NET

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|-------------------------------------|---------------------|----------------------|---------------------|
| <u>Notes receivable</u> | \$ 1,906 | \$ 655 | \$ 15,658 |
| <u>Accounts receivable</u> | | | |
| At amortized cost | | | |
| Gross carrying amount | 9,614,087 | 9,903,008 | 8,568,023 |
| Less: Allowance for impairment loss | <u>(216,413)</u> | <u>(206,152)</u> | <u>(220,705)</u> |
| | <u>9,397,674</u> | <u>9,696,856</u> | <u>8,347,318</u> |
| | <u>\$ 9,399,580</u> | <u>\$ 9,697,511</u> | <u>\$ 8,362,976</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 receivable since the date credit was initially granted to the end of the reporting period, and any allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Group's past default experience with the counterparty and an analysis of the counterparty's current financial position. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

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

| <u>June 30, 2021</u> | Not Past Due | Up to 30 Days | 31 to 60 Days | 61 to 90 Days | Over 90 Days | Total |
|--------------------------------|---------------------|------------------|---------------|---------------|------------------|---------------------|
| Expected credit loss rate | 0.50% | 2.83% | 69.32% | 93.62% | 100.00% | |
| Gross carrying amount | \$ 9,390,790 | \$ 55,386 | \$ 1,421 | \$ 47 | \$ 166,443 | \$ 9,614,087 |
| Loss allowance (lifetime ECLs) | <u>(47,377)</u> | <u>(1,569)</u> | <u>(985)</u> | <u>(44)</u> | <u>(166,438)</u> | <u>(216,413)</u> |
| Amortized cost | <u>\$ 9,343,413</u> | <u>\$ 53,817</u> | <u>\$ 436</u> | <u>\$ 3</u> | <u>\$ 5</u> | <u>\$ 9,397,674</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> |

June 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 | 0.05% | 0.34% | 2.12% | 12.55% | 97.84% | |
| Gross carrying amount | \$ 7,661,711 | \$ 395,658 | \$ 181,405 | \$ 129,490 | \$ 199,759 | \$ 8,568,023 |
| Loss allowance (lifetime ECLs) | <u>(3,828)</u> | <u>(1,329)</u> | <u>(3,853)</u> | <u>(16,257)</u> | <u>(195,438)</u> | <u>(220,705)</u> |
| Amortized cost | <u>\$ 7,657,883</u> | <u>\$ 394,329</u> | <u>\$ 177,552</u> | <u>\$ 113,233</u> | <u>\$ 4,321</u> | <u>\$ 8,347,318</u> |

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

| | For the Six Months Ended | |
|--|--------------------------|-------------------|
| | June 30 | |
| | 2021 | 2020 |
| Balance at January 1 | \$ 206,152 | \$ 218,665 |
| Add: Net remeasurement of loss allowance | 18,988 | 2,522 |
| Add: Amounts recovered | 194 | - |
| Less: Amounts written off | (8,918) | (490) |
| Foreign exchange gains and losses | <u>(3)</u> | <u>8</u> |
| Balance at June 30 | <u>\$ 216,413</u> | <u>\$ 220,705</u> |

11. INVENTORIES, NET

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|---------------------|----------------------|---------------------|
| Aircraft spare parts | \$ 7,713,901 | \$ 7,898,482 | \$ 7,123,806 |
| Items for in-flight sale | 628,784 | 627,437 | 627,587 |
| Work in process - maintenance services | 386,653 | 214,362 | 124,713 |
| Others | <u>49,427</u> | <u>47,824</u> | <u>22,628</u> |
| | <u>\$ 8,778,765</u> | <u>\$ 8,788,105</u> | <u>\$ 7,898,734</u> |

The operating costs for the six months ended June 30, 2021 and 2020 included losses from inventory write-downs of \$276,975 thousand and \$197,219 thousand, respectively. And the operating costs for the three months ended June 30, 2021 and 2020 included losses from inventory write-downs of \$88,696 thousand and \$57,756 thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------------|------------------|----------------------|------------------|
| Aircraft held for sale | <u>\$ 89,956</u> | <u>\$ 89,296</u> | <u>\$ 69,287</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 market and the proposed sale price which was 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 (%) | | |
|------------------------------|---|---|-----------------------------|----------------------|------------------|
| | | | June 30, 2021 | December 31, 2020 | June 30, 2020 |
| China Airlines, Ltd. | Cal-Dynasty International | A holding company, real estate and hotel services | 100 | 100 | 100 |
| | Cal-Asia Investment | General investing | 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 leasing and international trade | 100 | 100 | 100 |
| | Cal Hotel Co., Ltd. | Hotel business | 100 | 100 | 100 |
| | Sabre Travel Network (Taiwan) | Sale and maintenance of hardware and software | 94 | 94 | 94 |
| | Mandarin Airlines | Air transportation and maintenance of aircraft | 94 | 94 | 94 |
| | Taiwan Air Cargo Terminal (Note) | Air cargo and storage | 59 | 59 | 59 |
| | 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 | 81 | 81 | 77 |
| | Taiwan Aircraft Maintenance And Engineering Co., Ltd. | Aircraft maintenance | 100 | 100 | 100 |
| | Cal-Dynasty International | Kaohsiung Catering Service, 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 investing | 100 | 100 | 100 |

Note: Based on the Group's proportion of ownership.

Except that the Company has control over Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express, the others are investees that the Company had more than 50% of their voting shares. The above financial information of the subsidiaries for the six months ended June 30, 2021 and 2020 of these subsidiaries was reported according to reports that was 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 are subscribed at a percentage different from its existing ownership percentage, the Company's retained earnings decreased by \$169,272 thousand.

Tigerair Taiwan Co., Ltd. plans to issue ordinary shares for cash, and the board of directors of the Company approved the plan on August 5, 2021. The upper limit of the total amount of the transaction is \$2,000,000 thousand, and the actual transaction price and shares are to be decided after Tigerair Taiwan Co., Ltd approved the issuance.

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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|---------------------|----------------------|---------------------|
| Investments in associates | \$ 894,036 | \$ 1,079,852 | \$ 1,128,815 |
| Investments in jointly controlled entities | <u>769,202</u> | <u>890,950</u> | <u>927,846</u> |
| | <u>\$ 1,663,238</u> | <u>\$ 1,970,802</u> | <u>\$ 2,056,661</u> |

a. Investments in associates

The investments in associates were as follows:

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---|-------------------|----------------------|---------------------|
| <u>Unlisted companies</u> | | | |
| China Aircraft Services | \$ 55,366 | \$ 277,234 | \$ 377,985 |
| Dynasty Holidays | 3,956 | 5,237 | 8,397 |
| Airport Air Cargo Terminal (Xiamen) | 496,605 | 476,219 | 448,464 |
| Airport Air Cargo Service (Xiamen) | 281,452 | 270,046 | 250,922 |
| Eastern United International Logistics (Holdings) Ltd. (Hong Kong) | <u>56,657</u> | <u>51,116</u> | <u>43,047</u> |
| | <u>\$ 894,036</u> | <u>\$ 1,079,852</u> | <u>\$ 1,128,815</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> | | |
|---|--|----------------------|------------------|
| | June 30, 2021 | December 31, 2020 | June 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 June 30 | | For the Six Months Ended June 30 | |
|--|---|--------------------|---|--------------------|
| | 2021 | 2020 | 2021 | 2020 |
| China Aircraft Services | \$ (190,600) | \$ (31,532) | \$ (217,910) | \$ (61,232) |
| Dynasty Holidays | (442) | (1,068) | (880) | (1,644) |
| Airport Air Cargo Terminal (Xiamen) | 12,901 | 10,925 | 23,809 | 13,900 |
| Airport Air Cargo Service (Xiamen) | 7,114 | 4,171 | 13,347 | 9,114 |
| Eastern United International Logistics (Holdings) Ltd. (Hong Kong) | <u>3,085</u> | <u>725</u> | <u>5,929</u> | <u>1,450</u> |
| | <u>\$ (167,942)</u> | <u>\$ (16,779)</u> | <u>\$ (175,705)</u> | <u>\$ (38,412)</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 this investee's financial statements been independently reviewed.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---------------------------------|--------------------------|------------------------------|--------------------------|
| China Pacific Catering Services | \$ 593,363 | \$ 695,959 | \$ 729,181 |
| China Pacific Laundry Services | 132,757 | 149,353 | 152,976 |
| Nordam Asia Ltd. | 35,211 | 37,767 | 37,821 |
| Delica International Co., Ltd. | <u>7,871</u> | <u>7,871</u> | <u>7,868</u> |
| | <u>\$ 769,202</u> | <u>\$ 890,950</u> | <u>\$ 927,846</u> |

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

| | Proportion of Ownership and Voting Rights | | |
|---------------------------------|--|------------------------------|--------------------------|
| | June 30, 2021 | December 31, 2020 | June 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 the Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both sides have the right to make major motion vetoes on the board of directors, and therefore, the Group does not have control.

To 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 June 30 | | For the Six Months Ended June 30 | |
|---------------------------------|---------------------------------------|--------------------|-------------------------------------|--------------------|
| | 2021 | 2020 | 2021 | 2020 |
| China Pacific Catering Services | \$ (37,412) | \$ (70,479) | \$ (102,596) | \$ (71,890) |
| China Pacific Laundry Services | (8,684) | (7,479) | (16,596) | (8,928) |
| NORDAM Asia Ltd. | (1,741) | 9 | (2,556) | 8 |
| Delica International Co., Ltd. | - | - | - | - |
| | <u>\$ (47,837)</u> | <u>\$ (77,949)</u> | <u>\$ (121,748)</u> | <u>\$ (80,810)</u> |

The investments accounted for by 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 | - | 16,078 | 261,851 | 201,325 | 479,254 |
| Disposals | - | - | (2,110,858) | (116,056) | (2,226,914) |
| Reclassification | - | - | 753,739 | 15,832 | 769,571 |
| Net exchange differences | (6,300) | (11,497) | - | (1,250) | (19,047) |
| Balance at June 30, 2020 | <u>\$ 996,199</u> | <u>\$ 16,088,644</u> | <u>\$ 270,982,424</u> | <u>\$ 16,946,686</u> | <u>\$ 305,013,953</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 | - | (245,302) | (9,063,667) | (463,903) | (9,772,872) |
| Disposals | - | - | 1,988,398 | 112,444 | 2,100,842 |
| Reclassification | - | - | 1,489,158 | 5,563 | 1,494,721 |
| Net exchange differences | - | 6,043 | - | (3,228) | 2,815 |
| Balance at June 30, 2020 | <u>\$ -</u> | <u>\$ (7,267,799)</u> | <u>\$ (147,472,281)</u> | <u>\$ (11,558,532)</u> | <u>\$ (166,298,612)</u> |
| Balance at June 30, 2020, net value | <u>\$ 996,199</u> | <u>\$ 8,820,845</u> | <u>\$ 123,510,143</u> | <u>\$ 5,388,154</u> | <u>\$ 138,715,341</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 | - | 13,816 | 228,009 | 396,180 | 638,005 |
| Disposals | - | (17,311) | (35,971,162) | (83,462) | (36,071,935) |
| Reclassification | - | - | 7,744,140 | 13,380 | 7,757,520 |
| Net exchange differences | <u>(9,790)</u> | <u>(18,064)</u> | <u>-</u> | <u>(1,905)</u> | <u>(29,759)</u> |
| Balance at June 30, 2021 | <u>\$ 946,033</u> | <u>\$ 15,684,076</u> | <u>\$ 254,008,122</u> | <u>\$ 17,382,841</u> | <u>\$ 288,021,072</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 | - | (245,246) | (8,883,776) | (440,147) | (9,569,169) |
| Disposals | - | 17,311 | 31,402,375 | 82,165 | 31,501,851 |
| Reclassification | - | - | (410) | 3,328 | 2,918 |
| Net exchange differences | <u>-</u> | <u>9,669</u> | <u>-</u> | <u>1,589</u> | <u>11,258</u> |
| Balance at June 30, 2021 | <u>\$ -</u> | <u>\$ (7,339,903)</u> | <u>\$ (132,858,076)</u> | <u>\$ (12,100,710)</u> | <u>\$ (152,298,689)</u> |
| Balance at June 30, 2021, net value | <u>\$ 946,033</u> | <u>\$ 8,344,173</u> | <u>\$ 121,150,046</u> | <u>\$ 5,282,131</u> | <u>\$ 135,722,383</u> (Concluded) |

Reclassification was mainly aircraft prepayment.

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

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

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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|-----------------------|--------------------------|------------------------------|--------------------------|
| Carrying amount | | | |
| Investment properties | <u>\$ 2,074,664</u> | <u>\$ 2,074,798</u> | <u>\$ 2,074,932</u> |

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

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

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

17. OTHER INTANGIBLE ASSETS

| | Computer Software Cost | Relationship Between Clients | Accumulated Amortization | Net Value |
|----------------------------------|-----------------------------------|---|-------------------------------------|---------------------|
| Balance at January 1, 2020 | \$ 2,406,163 | \$ 186,197 | \$ (1,409,668) | \$ 1,182,692 |
| Additions | 64,235 | - | - | 64,235 |
| Amortization expenses | - | - | (105,557) | (105,557) |
| Effects of exchange rate changes | <u>-</u> | <u>-</u> | <u>(2)</u> | <u>(2)</u> |
| Balance at June 30, 2020 | <u>\$ 2,470,398</u> | <u>\$ 186,197</u> | <u>\$ (1,515,227)</u> | <u>\$ 1,141,368</u> |
| Balance at January 1, 2021 | \$ 1,763,644 | \$ 186,197 | \$ (873,490) | \$ 1,076,351 |
| Additions | 23,646 | - | - | 23,646 |
| Amortization expenses | - | - | (109,201) | (109,201) |
| Effects of exchange rate changes | <u>-</u> | <u>-</u> | <u>(2)</u> | <u>(2)</u> |
| Balance at June 30, 2021 | <u>\$ 1,787,290</u> | <u>\$ 186,197</u> | <u>\$ (982,693)</u> | <u>\$ 990,794</u> |

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

18. OTHER ASSETS

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--------------------------|----------------------|----------------------|----------------------|
| <u>Current</u> | | | |
| Temporary payments | \$ 266,354 | \$ 136,681 | \$ 160,459 |
| Prepayments | 499,796 | 348,554 | 1,857,860 |
| Restricted assets | 11,357 | 11,065 | 13,556 |
| Others | <u>248,613</u> | <u>364,879</u> | <u>368,905</u> |
| | <u>\$ 1,026,120</u> | <u>\$ 861,179</u> | <u>\$ 2,400,780</u> |
| <u>Non-current</u> | | | |
| Prepayments for aircraft | \$ 8,146,426 | \$ 5,725,340 | \$ 9,010,266 |
| Prepayments - long-term | 1,677,345 | 2,216,049 | 2,502,660 |
| Refundable deposits | 1,076,280 | 1,087,668 | 1,197,252 |
| Restricted assets | 457,808 | 291,742 | 117,931 |
| Other financial assets | 18,141 | 18,078 | 18,224 |
| Others | <u>10,583</u> | <u>14,015</u> | <u>25,077</u> |
| | <u>\$ 11,386,583</u> | <u>\$ 9,352,892</u> | <u>\$ 12,871,410</u> |

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A321neo, A329neo and B777F aircraft. For details of the contract for the purchase of the aircraft, refer to Note 34.

19. BORROWINGS

a. Short-term loans

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------------|---------------------|----------------------|---------------------|
| Bank loans - unsecured | <u>\$ 2,132,000</u> | <u>\$ 1,932,000</u> | <u>\$ 2,150,000</u> |
| Interest rates | 0.89%-1.27% | 0.92%-1.28% | 0.99%-1.34% |

b. Short-term bills payable

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---|---------------------|----------------------|---------------------|
| Commercial paper | \$ 1,800,000 | \$ 8,100,000 | \$ 8,300,000 |
| Less: Unamortized discount on bills payable | <u>253</u> | <u>11,118</u> | <u>51,298</u> |
| | <u>\$ 1,799,747</u> | <u>\$ 8,088,882</u> | <u>\$ 8,248,702</u> |
| Annual discount rate | 0.44% | 0.99%-1.00% | 0.89%-0.98% |

c. Long-term borrowings

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|----------------------------|--------------------------|------------------------------|--------------------------|
| Unsecured bank loans | \$ 22,399,892 | \$ 23,470,696 | \$ 4,916,000 |
| Secured bank loans | 38,637,865 | 39,584,540 | 41,086,093 |
| Commercial paper | | | |
| Proceeds from issuance | 23,470,000 | 29,490,000 | 36,610,000 |
| Less: Unamortized discount | <u>17,093</u> | <u>22,532</u> | <u>32,545</u> |
| | 84,490,664 | 92,522,704 | 82,579,548 |
| Less: Current portion | <u>13,796,182</u> | <u>15,234,374</u> | <u>17,527,332</u> |
| | <u>\$ 70,694,482</u> | <u>\$ 77,288,330</u> | <u>\$ 65,052,216</u> |
| Interest rates | 0.83%-1.63% | 0.81%-1.63% | 0.81%-1.68% |

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

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

| | June 30, 2021 | December 31, 2020 | June 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 March 2022, were used by the Group to guarantee the commercial paper issued. As of June 30, 2021, December 31, 2020 and June 30, 2020, such commercial paper was issued at discount rates of 1.0113%-1.0933%, 1.0263%-1.1629% and 1.0483%-1.1483%, 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 loan was \$24,390,000 thousand, and it shall be payable within 2 years from the date of initial drawdown. The group can apply to the lending institution for a two-year extension. As of June 30, 2021, the Group had made a drawdown in the amount of \$23,710,000 thousand.

20. BONDS PAYABLE

| | June 30, 2021 | December 31, 2020 | June 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 | 5,000,000 |
| 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 | 2,785,540 | 5,832,859 | 5,792,384 |
| Convertible bonds seventh-time issues | <u>4,317,650</u> | <u>-</u> | <u>-</u> |
| | 21,203,190 | 22,282,859 | 25,642,384 |
| Less: Current portion and put options of convertible bonds | <u>3,800,000</u> | <u>11,982,859</u> | <u>11,542,384</u> |
| | <u>\$ 17,403,190</u> | <u>\$ 10,300,000</u> | <u>\$ 14,100,000</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 | 2016.05.26-2021.05.26 | Principal repayable in May of 2020 and 2021; interest p.a. payable annually | 1.19 |
| Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually | 2016.09.27-2021.09.27 | Principal repayable in September of 2020 and 2021; interest p.a. payable annually | 1.08 |
| Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually | 2017.05.19-2020.05.19 | Principal repayable on due date; indicator rate; payable annually | 1.20 |
| Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually | 2017.05.19-2024.05.19 | Principal repayable on due date; indicator rate; payable annually | 1.75 |
| Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually | 2017.10.12-2020.10.12 | Principal repayable on due date; indicator rate; payable annually | 1.14 |
| Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually | 2017.10.12-2022.10.12 | Principal repayable in October of 2021 and 2022; indicator rate; payable annually | 1.45 |
| Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually | 2018.11.30-2023.11.30 | Principal repayable in November of 2022 and 2023; indicator rate; payable annually | 1.32 |
| Seven-year private unsecured bonds - issued at par in November 2018; repayable in November 2024 and 2025; 1.45% interest p.a., payable annually | 2018.11.30-2025.11.30 | Principal repayable in November of 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 of 2023 and 2024; indicator rate; payable annually | 1.10 |
| Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually | 2019.06.21-2026.06.21 | Principal repayable in June of 2025 and 2026; indicator rate; payable annually | 1.32 |
| 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 January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's ordinary shares. The initial conversion price was set at NT\$13.2, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 29, 2019, the conversion price was adjusted to NT\$12.6. Also a total face value of NT\$3,154,200 thousand of convertible bonds was converted into 250,333,000 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, 2024 and March 18, 2026 under certain conditions.
- d. Between July 28, 2021 and April 28, 2026 (except for the period when transfer of stock is suspended), 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>(188,863)</u> |
| Liability component at the date of issuance | <u>\$ 4,311,137</u> |

21. LEASE AGREEMENTS

a. Right-of-use assets

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------|----------------------|----------------------|----------------------|
| Carrying amounts | | | |
| Land | \$ 7,493,112 | \$ 7,813,335 | \$ 8,057,540 |
| Buildings | 1,227,287 | 1,394,386 | 1,182,287 |
| Flight equipment | 48,491,614 | 50,644,652 | 56,871,948 |
| Other equipment | <u>7,720</u> | <u>9,164</u> | <u>2,165</u> |
| | <u>\$ 57,219,733</u> | <u>\$ 59,861,537</u> | <u>\$ 66,113,940</u> |

For the Six Months Ended June 30

| | 2021 | 2020 |
|--------------------------------------|---------------------|---------------------|
| Additions to right-of-use assets | <u>\$ 1,472,420</u> | <u>\$ 1,832,399</u> |
| Depreciation for right-of-use assets | | |
| Land | \$ 147,318 | \$ 253,258 |
| Buildings | 244,304 | 395,276 |
| Flight equipment | 5,475,549 | 5,598,902 |
| Other equipment | <u>6,655</u> | <u>938</u> |
| | <u>\$ 5,873,826</u> | <u>\$ 6,248,374</u> |

b. Lease liabilities

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------|----------------------|----------------------|----------------------|
| Carrying amounts | | | |
| Current | <u>\$ 2,516,784</u> | <u>\$ 2,525,957</u> | <u>\$ 2,537,067</u> |
| Non-current | <u>\$ 12,909,639</u> | <u>\$ 13,279,792</u> | <u>\$ 14,568,636</u> |

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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------|------------------|----------------------|------------------|
| Land | 0%-1.80% | 1.09%-1.80% | 0%-1.65% |
| Buildings | 0%-2.98% | 0%-3.56% | 0%-3.56% |
| Flight equipment | 0.68%-3.34% | 0.68%-3.34% | 0.68%-3.34% |
| Other equipment | 1.06%-1.50% | 1.06%-1.50% | 1.06%-1.50% |

c. Financial liabilities under hedge accounting

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

| | Maturity Date | Subject | Carrying Value |
|-------------------|----------------------|---|-----------------------|
| June 30, 2021 | 2022.2.9-2028.5.15 | Financial liabilities for hedging - current | \$ 8,294,705 |
| | | Financial liabilities for hedging - non-current | 29,006,126 |
| 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 |
| June 30, 2020 | 2022.2.9-2028.5.15 | Financial liabilities for hedging - current | 8,485,591 |
| | | Financial liabilities for hedging - non-current | 38,661,467 |

Influence of comprehensive income

| | Recognized in Other Comprehensive Income | Reclassified to Income |
|--|---|-------------------------------|
| For the six months ended June 30, 2021 | \$ 422,203 | \$ 313,211 |
| For the three months ended June 30, 2021 | 781,773 | 163,115 |
| For the six months ended June 30, 2020 | 430,586 | 126,768 |
| For the three months ended June 30, 2020 | 787,054 | 76,281 |

- d. China Airlines, Mandarin Airlines and Tigerair Taiwan leased ten 777-300ER planes, eighteen A330-300 planes, fifteen 737-800 planes, ten A320-200 planes, one A320neo plane, four ERJ190 planes and three ART72-600 planes for operation, lease period are 4 to 16 years from February 2006 to March 2031. 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 letter of credit due to rental of planes:

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|---------------------|----------------------|--------------------------|----------------------|
| Refundable deposits | \$ 755,363 | \$ 725,135 | \$ 757,411 |
| Credit guarantees | 1,767,514 | 1,756,656 | 1,834,845 |

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, refer to Note 35. 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 \$891,598 thousand, \$885,657 thousand and \$879,756 thousand on June 30, 2021, December 31, 2020 and June 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 2022.

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

In February 2020, Tigerair Taiwan Co., Ltd. signed a rental contract for eight A321neo with ICBC Lease Corporation, which is expected to be introduced between 2021 and 2024. As of June 30, 2021, one A321neo has been delivered.

- f. In order to revitalize assets and strengthen financial structure, the Company signed a sale and leaseback agreement for three A330-300 with CALC Lease Corporation in June 2021. Those aircraft were sold for \$1,682,321 thousand and the Company recognized a loss of \$139,697 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\$4,752 thousand.

- g. Other lease information

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

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|----------------|--------------------------|----------------|
| | June 30 | | June 30 | |
| | 2021 | 2020 | 2021 | 2020 |
| Short-term leases and low-value asset leases | \$ 7,136 | \$ 5,739 | \$ 13,643 | \$ 12,123 |
| Total cash outflow for leases | \$ (2,827,171) | \$ (3,083,439) | \$ (5,927,863) | \$ (6,397,788) |

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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------------------|---------------------|----------------------|---------------------|
| Fuel costs | \$ 1,904,816 | \$ 1,853,717 | \$ 1,120,411 |
| Short-term employee benefits | 1,859,277 | 1,948,982 | 2,038,768 |
| Repair expenses | 812,722 | 366,589 | 635,621 |
| Ground service expenses | 771,008 | 956,956 | 698,913 |
| Terminal surcharges | 333,981 | 420,194 | 446,659 |
| Interest expenses | 133,062 | 120,550 | 168,033 |
| Commission expenses | 97,758 | 184,363 | 451,574 |
| Others | <u>2,436,215</u> | <u>2,454,906</u> | <u>2,510,318</u> |
| | <u>\$ 8,348,839</u> | <u>\$ 8,306,257</u> | <u>\$ 8,070,297</u> |

23. CONTRACT LIABILITIES

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|------------------------|---------------------|----------------------|---------------------|
| Frequent flyer program | \$ 2,530,351 | \$ 2,671,203 | \$ 2,922,083 |
| Advance ticket sales | 1,982,192 | 2,659,093 | 5,334,715 |
| Others | <u>11,642</u> | <u>168</u> | <u>-</u> |
| | <u>\$ 4,524,185</u> | <u>\$ 5,330,464</u> | <u>\$ 8,256,798</u> |
| Current | \$ 3,363,165 | \$ 3,569,360 | \$ 6,085,481 |
| Non-current | <u>1,161,020</u> | <u>1,761,104</u> | <u>2,171,317</u> |
| | <u>\$ 4,524,185</u> | <u>\$ 5,330,464</u> | <u>\$ 8,256,798</u> |

24. PROVISIONS

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|-----------------------------|----------------------|----------------------|----------------------|
| Operating leases - aircraft | <u>\$ 16,458,379</u> | <u>\$ 14,534,286</u> | <u>\$ 12,923,417</u> |
| Current | \$ 2,280,252 | \$ 164,800 | \$ 330,617 |
| Non-current | <u>14,178,127</u> | <u>14,369,486</u> | <u>12,592,800</u> |
| | <u>\$ 16,458,379</u> | <u>\$ 14,534,286</u> | <u>\$ 12,923,417</u> |

Aircraft Lease Contracts

| | |
|----------------------------------|----------------------|
| Balance at January 1, 2020 | \$ 10,371,857 |
| Additional provisions recognized | 3,294,263 |
| Usage | (612,080) |
| Effects of exchange rate changes | <u>(130,623)</u> |
| Balance at June 30, 2020 | <u>\$ 12,923,417</u> |
| Balance at January 1, 2021 | \$ 14,534,286 |
| Additional provisions recognized | 2,982,807 |
| Usage | (829,637) |
| Effects of exchange rate changes | <u>(229,077)</u> |
| Balance at June 30, 2021 | <u>\$ 16,458,379</u> |

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

25. RETIREMENT BENEFIT PLANS

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

| | For the Three Months Ended | | For the Six Months Ended | |
|--------------------|----------------------------|-------------------|--------------------------|-------------------|
| | June 30 | | June 30 | |
| | 2021 | 2020 | 2021 | 2020 |
| Operating costs | \$ 253,294 | \$ 243,158 | \$ 496,841 | \$ 487,098 |
| Operating expenses | <u>83,393</u> | <u>106,052</u> | <u>179,723</u> | <u>212,518</u> |
| | <u>\$ 336,687</u> | <u>\$ 349,210</u> | <u>\$ 676,564</u> | <u>\$ 699,616</u> |

26. EQUITY

a. Share capital

Ordinary shares

| | June 30, 2021 | December 31, 2020 | June 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>\$ 56,713,178</u> | <u>\$ 54,209,846</u> | <u>\$ 54,209,846</u> |

In the three months ended June 30, 2021, the Company issued the 6th domestic unsecured convertible bonds, and the holders of the convertible bonds applied for conversion in the amount of \$3,154,100 thousand. The number of ordinary shares exchanged was 250,325,000 and entitled to have their registration changed after the issuance of new shares.

b. Capital surplus

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|---------------------|----------------------|---------------------|
| Issuance of shares in excess of par value and conversion premium | \$ 729,882 | \$ 146,351 | \$ 146,351 |
| Retirement of treasury shares | 33,513 | 33,513 | 33,513 |
| Employee share options expired | 11,747 | 11,747 | 11,747 |
| Long-term investments | 119,134 | 119,134 | 118,962 |
| Bonds payable - equity component | 383,315 | 409,978 | 409,978 |
| Others | <u>682,129</u> | <u>466,604</u> | <u>466,604</u> |
| | <u>\$ 1,959,720</u> | <u>\$ 1,187,327</u> | <u>\$ 1,187,155</u> |

The capital surplus from share issued in excess of par (including additional paid-in capital from the issuance of ordinary shares and treasury share transactions) and donations may be used to offset deficit; 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 deficit. 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 Company has no loss, according to laws and regulations, the Company 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 March 18, 2021, the board proposed to offset the accumulated deficit in 2020. 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.

The offsetting of deficit in 2020 is subject to the resolution of the shareholders in the shareholders' meeting to be held on August 12, 2021.

d. Other equity items

The movement of other equity items is as follows:

| | 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 | 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 | (53,253) | - | - | (53,253) |
| Gain on hedging instruments | - | - | 481,682 | 481,682 |
| Cumulative loss on changes in fair value of hedging instruments reclassified to profit or loss | - | - | (100,441) | (100,441) |
| Unrealized loss on financial assets at fair value through other comprehensive income | - | (73,807) | - | (73,807) |
| Effects of income tax | 9,949 | 13,858 | (76,248) | (52,441) |
| Other comprehensive income recognized in the period | <u>(43,304)</u> | <u>(59,949)</u> | <u>304,993</u> | <u>201,740</u> |
| Balance on June 30, 2020 | <u>\$ (98,011)</u> | <u>\$ 47,313</u> | <u>\$ 1,448,671</u> | <u>\$ 1,397,973</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 | (31,836) | - | - | (31,836) |
| Gain on hedging instruments | - | - | 695,390 | 695,390 |
| Cumulative loss on changes in fair value of hedging instruments reclassified to profit or loss | - | - | (302,454) | (302,454) |
| Unrealized loss on financial assets at fair value through other comprehensive income | - | (11,986) | - | (11,986) |
| Effects of income tax | 6,158 | 3,199 | (78,588) | (69,231) |
| Other comprehensive income recognized in the period | <u>(25,678)</u> | <u>(8,787)</u> | <u>314,348</u> | <u>279,883</u> |
| Transferred to hedged items | - | - | 79,606 | 79,606 |
| Balance on June 30, 2021 | <u>\$ (159,930)</u> | <u>\$ 62,572</u> | <u>\$ 3,000,613</u> | <u>\$ 2,903,255</u> |

e. Non-controlling interests

| | For the Six Months Ended June 30 | |
|--|---|---------------------|
| | 2021 | 2020 |
| Beginning balance | \$ 3,152,090 | \$ 3,578,345 |
| Share in loss for the year | (340,285) | (244,067) |
| Exchange differences on translation of the financial statements of foreign operations | (1,114) | (3,747) |
| Loss on hedging instruments | (334) | (3) |
| Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss | 718 | 921 |
| Effects of income tax | <u>(77)</u> | <u>(184)</u> |
| | <u>(807)</u> | <u>(3,013)</u> |
| Dividends paid by subsidiaries | <u>(114,800)</u> | <u>(375,036)</u> |
| Ending balance | <u>\$ 2,696,198</u> | <u>\$ 2,956,229</u> |

f. Treasury shares

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

(In Thousands of Shares)

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

| Subsidiary | Shares (In Thousands) | Carrying Amount | Market Value |
|--------------------------|----------------------------------|----------------------------|---------------------|
| <u>June 30, 2021</u> | | | |
| Mandarin Airlines | 2,075 | <u>\$ 39,522</u> | <u>\$ 39,522</u> |
| <u>December 31, 2020</u> | | | |
| Mandarin Airlines | 2,075 | <u>\$ 24,999</u> | <u>\$ 24,999</u> |
| <u>June 30, 2020</u> | | | |
| Mandarin Airlines | 2,075 | <u>\$ 17,012</u> | <u>\$ 17,012</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 its shares in the Company between January 1, 2020 and June 30, 2020. The disposal price was \$6,854 thousand.

27. NET INCOME

a. Revenue

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-----------|---------------------------------------|----------------------|-------------------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Passenger | \$ 1,404,876 | \$ 1,513,347 | \$ 3,379,845 | \$ 20,241,369 |
| Cargo | 26,037,385 | 23,441,802 | 50,062,591 | 34,537,413 |
| Others | <u>1,930,721</u> | <u>1,360,373</u> | <u>3,758,202</u> | <u>4,093,870</u> |
| | <u>\$ 29,372,982</u> | <u>\$ 26,315,522</u> | <u>\$ 57,200,638</u> | <u>\$ 58,872,652</u> |

b. Other income

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-----------------|---------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Interest income | \$ 33,536 | \$ 91,811 | \$ 74,689 | \$ 180,111 |
| Subsidy income | 155 | 382 | 3,894 | 18,507 |
| Others | <u>121,035</u> | <u>107,381</u> | <u>171,963</u> | <u>164,586</u> |
| | <u>\$ 154,726</u> | <u>\$ 199,574</u> | <u>\$ 250,546</u> | <u>\$ 363,204</u> |

c. Other gains and losses

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--|---------------------------------------|------------------|-------------------------------------|--------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Loss (gain) on disposal of property, plant and equipment | \$ (953,379) | \$ 1,759 | \$ (989,855) | \$ 6,880 |
| Loss arising from sale and leaseback transactions | (139,697) | - | (139,697) | - |
| Gain (loss) on financial assets mandatorily classified as at FVTPL | (374) | (1,366) | (225) | 1,930 |
| Loss on disposal of investments | (540) | - | (540) | - |
| Net foreign exchange gains (losses) | 125,598 | 130,072 | (2,059) | 50,958 |
| Others | <u>(105,971)</u> | <u>(46,663)</u> | <u>(161,420)</u> | <u>(130,056)</u> |
| | <u>\$ (1,074,363)</u> | <u>\$ 83,802</u> | <u>\$ (1,293,796)</u> | <u>\$ (70,288)</u> |

d. Finance costs

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-------------------------------|---------------------------------------|-------------------|-------------------------------------|---------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Interest expense | | | | |
| Bonds payable | \$ 76,585 | \$ 45,915 | \$ 149,124 | \$ 143,147 |
| Bank loans | 182,783 | 237,028 | 389,250 | 522,784 |
| Interest on lease liabilities | <u>361,710</u> | <u>513,550</u> | <u>740,087</u> | <u>951,234</u> |
| | <u>\$ 621,078</u> | <u>\$ 796,493</u> | <u>\$ 1,278,461</u> | <u>\$ 1,617,165</u> |
| Capitalization rate | 0.6%- 1.1147% | 0.709%- 1.461% | 0.6%- 1.1147% | 0.709%- 1.917% |
| Capitalization interest | <u>\$ 10,823</u> | <u>\$ 18,500</u> | <u>\$ 19,116</u> | <u>\$ 46,149</u> |

e. Depreciation and amortization expenses

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|--|---------------------------------------|---------------------|-------------------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Property, plant, equipment | \$ 4,720,694 | \$ 4,865,963 | \$ 9,569,169 | \$ 9,772,872 |
| Right-of-use assets | 2,840,992 | 2,987,753 | 5,873,826 | 6,248,374 |
| Investment properties | 67 | 68 | 134 | 136 |
| Intangible assets | <u>54,873</u> | <u>55,655</u> | <u>109,201</u> | <u>105,557</u> |
| Depreciation and amortization expenses | <u>\$ 7,616,626</u> | <u>\$ 7,909,439</u> | <u>\$ 15,552,330</u> | <u>\$ 16,126,939</u> |
| An analysis of depreciation by function | | | | |
| Operating costs | \$ 7,294,438 | \$ 7,459,234 | \$ 14,801,078 | \$ 15,209,069 |
| Operating expenses | <u>267,315</u> | <u>394,550</u> | <u>642,051</u> | <u>812,313</u> |
| | <u>\$ 7,561,753</u> | <u>\$ 7,853,784</u> | <u>\$ 15,443,129</u> | <u>\$ 16,021,382</u> |
| An analysis of amortization by function | | | | |
| Operating costs | \$ 2,200 | \$ 3,548 | \$ 6,022 | \$ 7,086 |
| Operating expenses | <u>52,673</u> | <u>52,107</u> | <u>103,179</u> | <u>98,471</u> |
| | <u>\$ 54,873</u> | <u>\$ 55,655</u> | <u>\$ 109,201</u> | <u>\$ 105,557</u> |

f. Employee benefits expense

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---------------------------------------|---------------------|-------------------------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Post-employment benefits | | | | |
| Defined contribution plans | \$ 128,848 | \$ 128,023 | \$ 261,176 | \$ 283,882 |
| Defined benefit plans | <u>336,687</u> | <u>349,210</u> | <u>676,564</u> | <u>699,616</u> |
| | <u>\$ 465,535</u> | <u>\$ 477,233</u> | <u>\$ 937,740</u> | <u>\$ 983,498</u> |
| Other employee benefits | | | | |
| Salary expenses | \$ 4,258,874 | \$ 3,683,148 | \$ 8,691,279 | \$ 9,065,317 |
| Personnel service expenses | <u>1,141,784</u> | <u>1,223,004</u> | <u>2,584,940</u> | <u>3,010,368</u> |
| | <u>\$ 5,400,658</u> | <u>\$ 4,906,152</u> | <u>\$ 11,276,219</u> | <u>\$ 12,075,685</u> |
| An analysis of employee benefits expense by function | | | | |
| Operating costs | \$ 4,862,131 | \$ 4,106,613 | \$ 9,990,351 | \$ 10,367,573 |
| Operating expenses | <u>1,004,062</u> | <u>1,276,772</u> | <u>2,223,608</u> | <u>2,691,610</u> |
| | <u>\$ 5,866,193</u> | <u>\$ 5,383,385</u> | <u>\$ 12,213,959</u> | <u>\$ 13,059,183</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, and accrues profit bonus at a certain rate of profit before tax on the basis of the collective agreement signed with the China Airlines Employees Union. For the six months ended June 30, 2021 and 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 employees' compensation 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 June 30 | | For the Six Months Ended June 30 | |
|--|---------------------------------------|---------------------|-------------------------------------|---------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Current tax | | | | |
| Current year | \$ 53,296 | \$ 302,514 | \$ 81,397 | \$ 325,810 |
| Adjustments for prior periods | 7,785 | (22,322) | 7,785 | (22,322) |
| Deferred tax | | | | |
| Current year | <u>(125,702)</u> | <u>(392,884)</u> | <u>(269,104)</u> | <u>(412,097)</u> |
| Income tax expense (benefit) recognized in profit or loss | <u>\$ (64,621)</u> | <u>\$ (112,692)</u> | <u>\$ (179,922)</u> | <u>\$ (108,609)</u> |

b. Income tax recognized in other comprehensive income

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---------------------------------------|---------------------|-------------------------------------|--------------------|
| | 2021 | 2020 | 2021 | 2020 |
| <u>Deferred tax</u> | | | | |
| Recognized in other comprehensive income | | | | |
| Translation of foreign operations | \$ 7,567 | \$ 6,819 | \$ 6,158 | \$ 9,949 |
| Fair value changes of financial assets at FVTOCI | 2,287 | 13,982 | 3,199 | 13,858 |
| Fair value revaluation of hedging instruments for cash flow hedging | <u>(147,852)</u> | <u>(158,126)</u> | <u>(78,665)</u> | <u>(76,432)</u> |
| Total income tax recognized in other comprehensive income | <u>\$ (137,998)</u> | <u>\$ (137,325)</u> | <u>\$ (69,308)</u> | <u>\$ (52,625)</u> |

c. Income tax assessments

Income tax returns of the Company, Cal Hotel Co., Ltd. and Cal Park 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 June 30 | | For the Six Months Ended June 30 | |
|--|---------------------------------------|---------------------|-------------------------------------|-----------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Basic earnings (loss) per share | <u>\$ (0.06)</u> | <u>\$ 0.45</u> | <u>\$ (0.25)</u> | <u>\$ (0.24)</u> |
| Diluted earnings (loss) per share | <u>\$ (0.06)</u> | <u>\$ 0.42</u> | <u>\$ (0.25)</u> | <u>\$ (0.24)</u> |
| Earnings (loss) used in the computation of basic earnings (loss) per share | \$ (342,552) | \$ 2,459,448 | \$ (1,361,928) | \$ (1,313,885) |
| Effect of potentially dilutive ordinary shares: | | | | |
| Interest on convertible bonds (after tax) | <u>-</u> | <u>19,914</u> | <u>-</u> | <u>-</u> |
| Earnings (loss) used in the computation of diluted earnings per share | <u>\$ (342,552)</u> | <u>\$ 2,479,362</u> | <u>\$ (1,361,928)</u> | <u>\$ (1,313,885)</u> |
| <u>In thousands of shares</u> | | | | |
| Weighted average number of ordinary shares in computation of basic earnings (loss) per share | 5,474,105 | 5,418,910 | 5,446,508 | 5,418,640 |
| Effects of potentially dilutive ordinary shares: | | | | |
| Convertible bonds | <u>-</u> | <u>476,190</u> | <u>-</u> | <u>-</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share | <u>5,474,105</u> | <u>5,895,100</u> | <u>5,446,508</u> | <u>5,418,640</u> |

If the Group offers to settle compensation or bonuses paid to employees in cash or shares, the Group assumes the entire amount of the compensation or bonuses would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings (loss) per share, if the effect is dilutive. Such dilutive effects 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 goals, 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>June 30, 2021</u> | | <u>December 31, 2020</u> | | <u>June 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 | \$ 21,203,190 | \$ 24,919,752 | \$ 22,282,859 | \$ 22,459,685 | \$ 25,642,384 | \$ 25,423,136 |

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 (i.e. unobservable inputs).

June 30, 2021

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------------|-----------------|-------------------|----------------------|
| <u>Financial assets at FVTPL</u> | | | | |
| Domestic money market funds | <u>\$ 250,248</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 250,248</u> |
| <u>Financial assets at FVTOCI</u> | | | | |
| <u>Investments in equity instruments</u> | | | | |
| Unlisted shares - domestic | \$ - | \$ - | \$ 33,710 | \$ 33,710 |
| Unlisted shares - foreign | - | - | <u>117,968</u> | <u>117,968</u> |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 151,678</u> | <u>\$ 151,678</u> |
| Financial assets for hedging | <u>\$ 640,669</u> | <u>\$ -</u> | <u>\$ 19,106</u> | <u>\$ 659,775</u> |
| Financial liabilities for hedging | <u>\$ 37,300,831</u> | <u>\$ 1,487</u> | <u>\$ -</u> | <u>\$ 37,302,318</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 | | | | |
| United 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> |

June 30, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|----------------------|------------------|-------------------|----------------------|
| Financial assets at FVTPL | | | | |
| Domestic money market funds | <u>\$ 498,746</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 498,746</u> |
| Financial assets at FVTOCI | | | | |
| Investments in equity instruments | | | | |
| Unlisted shares - domestic | \$ - | \$ - | \$ 22,351 | \$ 22,351 |
| Unlisted shares - foreign | <u>-</u> | <u>-</u> | <u>111,018</u> | <u>111,018</u> |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 133,369</u> | <u>\$ 133,369</u> |
| Financial liabilities at FVTPL | | | | |
| Derivative instruments | <u>\$ -</u> | <u>\$ 2,491</u> | <u>\$ -</u> | <u>\$ 2,491</u> |
| Financial assets for hedging | <u>\$ -</u> | <u>\$ 1,314</u> | <u>\$ 262</u> | <u>\$ 1,576</u> |
| Financial liabilities for hedging | <u>\$ 47,147,058</u> | <u>\$ 41,823</u> | <u>\$ 39,578</u> | <u>\$ 47,228,459</u> |

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

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

| <u>Financial Instrument</u> | <u>Valuation Techniques and Inputs</u> |
|-----------------------------|---|
| Derivatives | 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 foreign exchange and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuations. Changes in the implied fluctuations used in isolation would result in an increase or decrease in the fair values of the foreign exchange forward contracts and fuel options.

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

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

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

The movements of Level 3 financial instruments are as follows:

| | Derivative Instruments | Equity Instruments |
|--|-------------------------------|---------------------------|
| Balance at January 1, 2021 | \$ - | \$ 163,746 |
| Recognized in other comprehensive income | <u>10,753</u> | <u>(12,068)</u> |
| Balance at June 30, 2021 | <u>\$ 10,753</u> | <u>\$ 151,678</u> |
| Balance at January 1, 2020 | \$ 5,524 | \$ 209,221 |
| Recognized in other comprehensive income | <u>(44,840)</u> | <u>(75,852)</u> |
| Balance at June 30, 2020 | <u>\$ (39,316)</u> | <u>\$ 133,369</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

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|--|--------------------------|------------------------------|--------------------------|
| <u>Financial assets</u> | | | |
| Financial assets at FVTPL | \$ 250,248 | \$ 274,761 | \$ 498,746 |
| Financial assets for hedging | 659,775 | 7,613,636 | 1,576 |
| Financial assets at amortized cost (Note 1) | 43,309,130 | 45,898,091 | 46,480,449 |
| Financial assets at FVTOCI | 151,678 | 163,746 | 133,369 |
| <u>Financial liabilities</u> | | | |
| Financial liabilities at FVTPL | - | - | 2,491 |
| Financial liabilities for hedging | 37,302,318 | 40,585,885 | 47,228,459 |
| Financial liabilities at amortized cost (Note 2) | 151,652,576 | 165,458,441 | 159,373,533 |

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

Note 2: The balances of 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 non-current 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 shareholders to reduce the impact of market price changes on earnings. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax losses and an increase in pre-tax other comprehensive income gain and losses for the six months ended June 30, 2021 of \$149,145 thousand and \$1,314,334 thousand, respectively, and an decrease in pre-tax losses and increase in pre-tax other comprehensive income gain and loss for the six months ended June 30, 2020 of \$10,888 thousand and \$1,452,974 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.

June 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 | NTD50,702/ USD1,766 | 2021.7.7- 2021.11.9 | 28.5-29.3 | Financial assets for hedging - current/ liabilities for hedging - current | \$ - | \$ 1,487 |

The abovementioned hedging instruments applied hedge accounting. The book value of other equity which belongs to each hedging items (aircraft rentals and aviation fuel in U.S. dollars) was \$(1,487) 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 | NTD 127,906/ USD4,371 | 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 | NTD 142,045/ USD5,000 | 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.

June 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 | NTD293,226/ USD9,882 | 2020.7.21- 2021.6.9 | 29.5-30.8 | Financial assets for hedging - current/ liabilities for hedging - current | \$ 13 | \$ 4,531 |
| Aviation fuel - forward exchange contracts | NTD/USD | NTD539,472/ USD20,000 | 2020.7.31- 2021.5.28 | 29.4-30.7 | Financial assets for hedging - current/ liabilities for hedging - current | 348 | 7,364 |
| Aircraft prepayments - forward exchange contracts | NTD/USD | NTD3,115,727/ USD105,000 | 2020.11.4- 2020.12.4 | 29.5-30.4 | Financial assets for hedging - current/ liabilities for hedging - current | 803 | 29,928 |
| Long-term prepayments - forward exchange contracts | NTD/USD | NTD29,674/ USD1,000 | 2020.9.25 | 29.5 | Financial assets for hedging - current/ liabilities for hedging - current | 150 | - |

The abovementioned hedging instruments applied hedge accounting. The book value of other equity which belongs to each hedging items (aircraft rentals, aviation fuel, aircraft prepayments and long-term prepayments in U.S. dollar) was \$(4,518) thousand, \$(7,016) thousand, \$(29,125) thousand and \$150 thousand.

For the six months ended June 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 hedge | | | |
| Aircraft rentals | \$ 2,026 | \$ (3,788) | (Note) |
| Aviation fuel | <u>5,794</u> | <u>(6,844)</u> | |
| | <u>\$ 7,820</u> | <u>\$ (10,632)</u> | |

Note: Increase in operating costs or foreign exchange loss.

For the three months ended June 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 | \$ 152 | \$ (1,944) | (Note) |
| Aviation fuel | <u>860</u> | <u>(1,450)</u> | |
| | <u>\$ 1,012</u> | <u>\$ (3,394)</u> | |

Note: Increase in operating costs or foreign exchange loss.

For the six months ended June 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 | \$ 3,935 | \$ (3,953) | (Note) |
| Aviation fuel | 3,145 | (2,100) | |
| Aircraft prepayments | (10,817) | - | |
| Long-term prepayment | <u>150</u> | <u>-</u> | |
| | <u>\$ (3,587)</u> | <u>\$ (6,053)</u> | |

Note: Increase in operating costs or foreign exchange loss.

For the three months ended June 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 | \$ (1,502) | \$ (4,835) | (Note) |
| Aviation fuel | (5,729) | (1,829) | |
| Aircraft prepayments | (30,721) | - | |
| Long-term prepayment | <u>150</u> | <u>-</u> | |
| | <u>\$ (37,802)</u> | <u>\$ (6,664)</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:

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|-------------------------------|--------------------------|------------------------------|--------------------------|
| Fair value interest rate risk | | | |
| Financial liabilities | \$ 64,655,938 | \$ 68,883,667 | \$ 80,413,145 |
| Cash flow interest rate risk | | | |
| Financial liabilities | 97,696,917 | 112,324,305 | 102,460,250 |

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 one yard (25 basis points) and had all other variables been held constant, the Group's pretax losses for the six months ended June 30, 2021 would have increased by \$122,121 thousand.

Had interest rates increased one yard (25 basis points) and had all other variables been held constant, the Group's pretax losses for the six months ended June 30, 2020 would have increased by \$128,075 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.

June 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 | NTD 10,753 | 2021.7.31-2022.6.30 | USD68.2-USD99 | Financial assets for hedging - current/liabilities for hedging - current | \$ 19,106 | \$ - |

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 \$10,753 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.

June 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 | NTD 19,641 | 2020.9.30- 2020.12.31 | USD49.65- USD78.50 | Financial assets for hedging - current/ liabilities for hedging - current | \$ 262 | \$ 19,903 |
| Cash flow hedges - fuel swap contract | USD | NTD 19,675 | 2020.12.31 | USD67.48 | Financial assets for hedging - current/ liabilities for hedging - current | - | 19,675 |

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 \$(39,316) thousand.

For the six months ended June 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 | <u>\$ 10,753</u> | <u>\$ (843)</u> | (Note) |

Note: Increasing in operating costs.

For the three months ended June 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 | \$ 8,493 | \$ (843) | (Note) |

Note: Increasing in operating costs.

For the six months ended June 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 hedges - fuel options | \$ (25,165) | \$ (21,195) | (Note) |
| Cash flow hedges - fuel swap contract | <u>(19,675)</u> | <u>-</u> | |
| | <u>\$ (44,840)</u> | <u>\$ (21,195)</u> | |

Note: Increasing in operating costs.

For the three months ended June 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 hedges - fuel options | \$ 55,616 | \$ (19,393) | (Note) |
| Cash flow hedges - fuel swap contract | <u>(19,675)</u> | <u>-</u> | |
| | <u>\$ 35,941</u> | <u>\$ (19,393)</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 Six Months Ended June 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% | \$ 504 | \$ 538 | \$ 605 | \$ 2,232 |
| Fuel price decrease 5% | - | (538) | (605) | (8,829) |

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 in Note 32.

3) Liquidity risk

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

| | Unused Bank Loan Limit (Unsecured) |
|---|---|
| The Group (China Airlines, Ltd., Mandarin Airlines and Tigerair Taiwan Co., Ltd.) | \$ 20,540,468 |

Liquidity and interest rate risk table

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

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

June 30, 2021

| | The Weighted Average Effective Interest Rate (%) | Less than 1 Year | 1 to 5 Years | Over 5 Years |
|------------------------------------|---|-----------------------------|-----------------------|----------------------|
| Lease liabilities | 2.3142 | \$ 3,388,231 | \$ 9,458,653 | \$ 7,174,576 |
| Floating interest rate liabilities | 0.9498 | 18,585,062 | 56,478,456 | 15,028,926 |
| Hedging instruments | 3.0097 | 11,710,637 | 38,650,870 | 663,055 |
| Bonds payable | 0.8749 | <u>3,985,515</u> | <u>17,555,457</u> | <u>-</u> |
| | | <u>\$ 37,669,445</u> | <u>\$ 122,143,436</u> | <u>\$ 22,866,557</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 |
| Derivative 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> |

June 30, 2020

| | The Weighted Average Effective Interest Rate (%) | Less than 1 Year | 1 to 5 Years | Over 5 Years |
|---------------------------------------|---|-----------------------------|----------------------|----------------------|
| Lease liabilities | 2.3909 | \$ 3,265,019 | \$ 10,294,529 | \$ 7,350,930 |
| Floating interest rate liabilities | 0.9845 | 18,340,320 | 32,644,201 | 33,373,807 |
| Hedging instruments | 3.0476 | 10,356,709 | 38,103,864 | 3,888,599 |
| Bonds payable | 0.9791 | <u>12,154,558</u> | <u>10,938,049</u> | <u>3,332,309</u> |
| | | <u>\$ 44,116,606</u> | <u>\$ 91,980,643</u> | <u>\$ 47,945,645</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

| Related Party Name | Relationship with the Company |
|--|--|
| 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 relatives |

b. Operating income

| Account Items | Related Party Type | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---------------|-----------------------------------|---------------------------------------|-----------------|-------------------------------------|------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| Other income | Major shareholders of the Company | <u>\$ 2,623</u> | <u>\$ -</u> | <u>\$ 8,035</u> | <u>\$ 5,097</u> |
| | Associate | <u>\$ 56</u> | <u>\$ 104</u> | <u>\$ 56</u> | <u>\$ 112</u> |
| | Joint venture investment | <u>\$ 4,905</u> | <u>\$ 2,774</u> | <u>\$ 9,595</u> | <u>\$ 13,189</u> |

c. Purchases of goods

| Related Party Type | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|-----------------------------------|---------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Major shareholders of the Company | <u>\$ 6,062</u> | <u>\$ -</u> | <u>\$ 18,572</u> | <u>\$ 11,418</u> |
| Associate | <u>\$ 113,884</u> | <u>\$ 145,317</u> | <u>\$ 206,518</u> | <u>\$ 222,980</u> |
| Joint venture investment | <u>\$ 48,160</u> | <u>\$ 44,819</u> | <u>\$ 109,361</u> | <u>\$ 375,720</u> |

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

| Related Party Type | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|-----------------------------------|------------------|----------------------|------------------|
| Major shareholders of the Company | \$ 1,058 | \$ - | \$ - |
| Joint venture investment | <u>1,657</u> | <u>1,667</u> | <u>1,314</u> |
| | <u>\$ 2,715</u> | <u>\$ 1,667</u> | <u>\$ 1,314</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 | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|----------------------------------|------------------|----------------------|------------------|
| Major shareholder of the Company | \$ 2,450 | \$ - | \$ - |
| Associate | 41,270 | 52,187 | 45,572 |
| Joint venture investment | <u>49,012</u> | <u>76,380</u> | <u>47,020</u> |
| | <u>\$ 92,732</u> | <u>\$ 128,567</u> | <u>\$ 92,592</u> |

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

f. Lease arrangements

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, and the Company paid the rental based on usage hours. As of June 30, 2021 and 2020, the Company paid rentals of \$18,572 thousand and \$11,418 thousand, respectively; for the three months ended June 30, 2021 and 2020, the Company's paid rentals amounted to \$6,062 thousand and \$0 thousand, respectively.

g. Endorsements and guarantees

| | June 30, 2021 | | December 31, 2020 | | June 30, 2020 | |
|---|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| | Authorized Amount | Amount Used | Authorized Amount | Amount Used | Authorized Amount | Amount Used |
| <u>The Company</u> | | | | | | |
| Cal Park | \$ 3,850,000 | \$ 1,772,880 | \$ 3,850,000 | \$ 1,892,540 | \$ 3,850,000 | \$ 2,024,250 |
| Tigerair Taiwan Co., Ltd. | 2,604,791 | 259,894 | 2,656,591 | 265,062 | 2,774,837 | 473,735 |
| Taiwan Aircraft Maintenance and Engineering Co., Ltd. | 2,000,000 | 1,381,500 | 2,000,000 | 1,336,000 | 2,000,000 | 1,301,327 |

h. Compensation of key management personnel

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|------------------------------|---------------------------------------|-----------------|-------------------------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Short-term employee benefits | \$ 9,331 | \$ 6,569 | \$ 18,667 | \$ 16,051 |
| Post-employment benefits | <u>40,548</u> | <u>528</u> | <u>41,138</u> | <u>1,165</u> |
| | <u>\$ 49,879</u> | <u>\$ 7,097</u> | <u>\$ 59,805</u> | <u>\$ 17,216</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:

| | June 30, 2021 | December 31, 2020 | June 30, 2020 |
|-------------------------------|----------------------|----------------------|-----------------------|
| Property, plant and equipment | \$ 32,986,821 | \$ 34,170,076 | \$ 35,343,455 |
| Right-of-use assets | 57,219,733 | 59,861,537 | 66,113,940 |
| Restricted assets | <u>469,165</u> | <u>302,807</u> | <u>131,487</u> |
| | <u>\$ 90,675,719</u> | <u>\$ 94,334,420</u> | <u>\$ 101,588,882</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. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

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

As of June 30, 2021, 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 June 30, 2021, the accumulated payments of construction in process for consultant service and construction equipment were \$22,750 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 once with a 20-year extension.

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

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

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

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

- 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 period of the eleven aircraft ranges from 2024 to 2026. As of June 30, 2021, the list price has been paid in the amount of US\$32,570 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 period is from 2020 to 2023. As of June 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\$210,663 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 period of the seven aircraft ranges from 2025 to 2027. As of June 30, 2021, the list price has 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 June 30, 2021, the list price has been paid in the amount of US\$2,988 thousand (recognized as prepayments for aircraft), for details please refer to Note 21.
- f. On July 10, 2021, Tigerair Taiwan Co., Ltd. signed a contract with Tiger Airways Holdings Pte Ltd to purchase trademark.

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 six months ended June 30, 2021, because of the COVID-19 pandemic, the Group received subsidy of \$639,030 thousand for the airport landing fees and parking fees, etc. The subsidy for housing and land rental, and salary expenses of \$463,118 thousand was recognized as deduction from other income and 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 currencies 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)

June 30, 2021

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|-------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 661,405 | 27.8552 | \$ 18,423,556 |
| EUR | 17,507 | 33.1126 | 579,688 |
| HKD | 321,680 | 3.5881 | 1,154,220 |
| JPY | 3,815,078 | 0.2521 | 961,781 |
| RMB | 408,953 | 4.3141 | 1,764,265 |

(Continued)

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | \$ 2,126,650 | 27.8552 | \$ 59,238,248 |
| EUR | 5,732 | 33.1126 | 189,799 |
| HKD | 64,979 | 3.5881 | 233,150 |
| JPY | 3,518,945 | 0.2521 | 887,126 |
| RMB | 130,921 | 4.3141 | 564,804 |
| | | | (Concluded) |

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 |

June 30, 2020

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|-------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 708,607 | 29.6736 | \$ 21,026,924 |
| EUR | 22,349 | 33.3333 | 744,958 |
| HKD | 293,927 | 3.8256 | 1,124,433 |
| JPY | 3,597,792 | 0.2751 | 989,819 |
| RMB | 511,200 | 4.1946 | 2,144,296 |
| | | | (Continued) |

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | \$ 2,310,351 | 29.6736 | \$ 68,556,401 |
| EUR | 9,497 | 33.3333 | 316,551 |
| HKD | 61,375 | 3.8256 | 234,795 |
| JPY | 3,111,172 | 0.2751 | 855,940 |
| RMB | 122,112 | 4.1946 | 512,216 |
| | | | (Concluded) |

For the three months ended June 30, 2021 and 2020, net foreign exchange gains were \$125,598 thousand and \$103,072 thousand, respectively; and for the six months ended June 30, 2021 and 2020, net foreign exchange (losses) gains were \$(2,059) thousand and \$50,958 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 prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 6) Disposals of individual real estate at costs 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 7 (attached)
- d. Information of major shareholders: Table 9 (attached)

38. SEGMENT INFORMATION

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 policies applied for reportable segments are consistent with the policies aforementioned in Note 4.

For the six months ended June 30, 2021 and 2020, financial information of reportable segments is listed below:

| | For the Six Months Ended June 30, 2021 | | | Total |
|--|---|----------------------|---------------------------------------|-----------------------|
| | Air Transportation | Others | Adjustments and Write-offs | |
| Operating revenue | <u>\$ 55,192,789</u> | <u>\$ 3,594,780</u> | <u>\$ (1,586,931)</u> | <u>\$ 57,200,638</u> |
| Operating profit and loss | <u>\$ 1,014,019</u> | <u>\$ (235,327)</u> | <u>\$ (41,663)</u> | \$ 737,029 |
| Interest revenue | | | | 74,689 |
| Investment income accounted for using the equity method | | | | (297,453) |
| Revenue | | | | 313,314 |
| Finance costs | | | | (1,278,461) |
| Expenses | | | | <u>(1,431,253)</u> |
| Loss before income tax | | | | <u>\$ (1,882,135)</u> |
| Identifiable assets | <u>\$ 186,417,990</u> | <u>\$ 14,574,646</u> | <u>\$ (5,975,856)</u> | \$ 195,016,780 |
| Investments accounted for using the equity method | | | | 1,663,238 |
| Assets | | | | <u>71,310,317</u> |
| Total assets | | | | <u>\$ 267,990,335</u> |

For the Six Months Ended June 30, 2020

| | Air Transportation | Others | Adjustments and Write-offs | Total |
|--|-------------------------------|----------------------|---------------------------------------|-----------------------|
| Operating revenue | <u>\$ 56,970,659</u> | <u>\$ 3,647,999</u> | <u>\$ (1,746,006)</u> | <u>\$ 58,872,652</u> |
| Operating profit and loss | <u>\$ 166,729</u> | <u>\$ (347,162)</u> | <u>\$ (42,657)</u> | \$ (223,090) |
| Interest revenue | | | | 180,111 |
| Investment income accounted for using the equity method | | | | (119,222) |
| Revenue | | | | 271,990 |
| Finance costs | | | | (1,617,165) |
| Expenses | | | | <u>(159,185)</u> |
| Loss before income tax | | | | <u>\$ (1,666,561)</u> |
| Identifiable assets | <u>\$ 197,620,322</u> | <u>\$ 15,553,415</u> | <u>\$ (6,269,524)</u> | \$ 206,904,213 |
| Investments accounted for using the equity method | | | | 2,056,661 |
| Assets | | | | <u>75,753,286</u> |
| Total assets | | | | <u>\$ 284,714,160</u> |

CHINA AIRLINES, LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
 FOR THE SIX MONTHS ENDED JUNE 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 | \$ 55,710 | 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 SIX MONTHS ENDED JUNE 30, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. | Endorsement/ Guarantee Provider | Counter-party | | Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1) | Maximum Balance for the Period | Ending Balance | Actual Borrowing Amount | Value of Collaterals Property, Plant, or Equipment | Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%) | Maximum Collateral/ Guarantee Amounts Allowable (Note 2) | Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries | Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent | Endorsement/ Guarantee Given on Behalf of Companies in Mainland China |
|-----|---------------------------------------|--|---|---|--------------------------------------|---------------------------|-------------------------------|---|--|---|--|--|---|
| | | Name | Nature of Relationship | | | | | | | | | | |
| 0 | China Airlines (the "Company") | Cal Park Tigerair Taiwan Ltd. | 100% subsidiary 75.86% subsidiary by direct and indirect holdings | \$ 11,966,553 11,966,553 | \$ 3,850,000 2,671,771 | \$ 3,850,000 2,604,791 | \$ 1,772,880 259,894 | \$ - - | 6.43 4.35 | \$ 29,916,384 29,916,384 | Yes Yes | No No | No No |
| | | Taiwan Aircraft Maintenance and Engineering Co., Ltd. | 100% subsidiary | 11,966,553 | 2,000,000 | 2,000,000 | 1,381,500 | - | 3.34 | 29,916,384 | Yes | No | No |

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

JUNE 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 | June 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. - ordinary shares | - | Financial assets at fair value through other comprehensive income - non-current | 1,359,368 | \$ 97,991 | 13.59 | 107,790 | Note 1 |
| | Everest Investment Holdings Ltd. - preferred shares | - | Financial assets at fair value through other comprehensive income - non-current | 135,937 | 9,799 | - | - | |
| | Chung Hua Express Co. | - | Financial assets at fair value through other comprehensive income - non-current | 1,100,000 | 33,710 | 11.00 | 33,710 | |
| | 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 | 39,522 | - | 39,522 | - |
| 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) | - | Financial assets at fair value through other comprehensive income - non-current | - | 10,178 | 5.45 | 10,178 | 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 | 1,691,706 | 17,665 | - | 17,665 | - |
| | FSITC Money Market Fund | - | Financial assets at fair value through profit or loss - current | 308,094 | 55,474 | - | 55,474 | - |
| Taiwan Airport Services | <u>Shares</u> TransAsia Airways | - | Financial assets at fair value through profit or loss - current | 2,277,786 | - | 0.4 | - | - |
| 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 | 4,776 | - | 4,776 | - |
| 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 | 86,281 | - | 86,281 | - |
| | Prudential Financial Return Fund | - | Financial assets at fair value through profit or loss - current | 4,493,628 | 70,949 | - | 70,949 | - |
| | Taishin 1699 Money Market Fund | - | Financial assets at fair value through profit or loss - current | 1,106,807 | 15,103 | - | 15,103 | - |
| Tigerair Taiwan Co., Ltd. | <u>Government bond</u> Philippines government bond | - | Financial assets at amortized cost | - | 1,618 | Not applicable | 1,618 | - |

Note 1: The subsidiary's net asset value was \$107,790 thousand, which included ordinary shares and preference shares as of June 30, 2021.

(Continued)

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 SIX MONTHS ENDED JUNE 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. ("China Airlines") | Dynasty Aerotech International Corp. | Subsidiary | Purchase | \$ 176,860 | 0.37 | 2 months | \$ - | - | \$ (46,145) | (3.08) | - |
| | Taiwan Air Cargo Terminal | Subsidiary | Purchase | 364,005 | 0.76 | 30 days | - | - | (57,864) | (3.86) | - |
| | Taoyuan International Airport Service | Subsidiary | Purchase | 514,167 | 1.07 | 40 days | - | - | (186,640) | (12.45) | - |
| | Eastern United International Logistics (Holdings) Ltd. | Equity-method investee | Purchase | 181,025 | 0.38 | 2 months | - | - | (32,966) | (2.20) | - |
| | China Pacific Catering Services | Equity-method investee | Purchase | 101,288 | 0.21 | 90 days | - | - | (46,827) | (3.12) | - |
| Mandarin Airlines | Tigerair Taiwan Co., Ltd. | Same parent company | Purchase | 139,103 | 7.86 | 1 months | - | - | 79,331 | 19.88 | - |

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

JUNE 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 | \$ 115,153 | Note | \$ - | - | \$ 90,645 | \$ - |
| Taoyuan International Airport Service | China Airlines | Parent company | 186,640 | 5.11 | - | - | 119,051 | - |

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX MONTHS ENDED JUNE 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 June 30, 2021 | | | Net Income (Loss) of the Investee | Investment Income (Loss) | Note |
|-----------------------------|---|---|---|-------------------|-------------------|-----------------------------|-------------------------|-----------------|-----------------------------------|--------------------------|---------------|
| | | | | June 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 | \$ 1,623,357 | \$ (3,131) | \$ 18,324 | Note 4 |
| | Mandarin Airlines | Taipei, Taiwan | Air transportation and maintenance of aircraft | 2,042,368 | 2,042,368 | 188,154,025 | 93.99 | 534,313 | (733,064) | (689,007) | 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 | 1,529,082 | 229,912 | 124,149 | - |
| | 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 | 1,164,023 | (1,627) | (1,024) | Note 2 |
| | China Pacific Catering Services | Taoyuan, Taiwan | In-flight catering | 439,110 | 439,110 | 43,911,000 | 51.00 | 593,363 | (201,168) | (102,596) | - |
| | Taoyuan International Airport Services | Taoyuan, Taiwan | Airport services | 147,000 | 147,000 | 34,300,000 | 49.00 | 502,167 | (205,145) | (100,521) | - |
| | Cal-Asia Investment | Territory of the British Virgin Islands | General investment | US\$ 7,172 | US\$ 7,172 | 7,172,346 | 100.00 | 484,640 | 24,357 | 24,357 | - |
| | Sabre Travel Network (Taiwan) | Taipei, Taiwan | Sale and maintenance of hardware and software | 52,200 | 52,200 | 13,021,042 | 93.93 | 208,468 | (25,993) | (24,415) | - |
| | China Aircraft Service | Hong Kong International Airport | Airport services | HK\$ 58,000 | HK\$ 58,000 | 28,400,000 | 20.00 | 55,366 | (1,089,551) | (217,910) | - |
| | Taiwan Airport Services | Taipei, Taiwan | Airport services | 12,289 | 12,289 | 20,626,644 | 47.35 | 152,808 | (99,186) | (46,965) | - |
| | Kaohsiung Catering Services | Kaohsiung, Taiwan | In-flight catering | 383,846 | 383,846 | 21,494,637 | 53.67 | 474,558 | (59,596) | (38,368) | Note 5 |
| | Cal Hotel Co., Ltd. | Taoyuan, Taiwan | Hotel business | 465,000 | 465,000 | 46,500,000 | 100.00 | 373,820 | (30,784) | (31,534) | 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 | 132,757 | (30,175) | (16,596) | - |
| | Dynasty Aerotech International Corp. | Taoyuan, Taiwan | Cleaning of aircraft and maintenance of machine and equipment | 77,270 | 77,270 | 77,270 | 100.00 | 157,352 | 20,696 | 20,721 | 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 | 3,956 | (4,400) | (880) | - |
| | Global Sky Express | Taipei, Taiwan | Forwarding and storage of air cargo | 2,500 | 2,500 | 250,000 | 25.00 | 8,426 | 3,130 | 783 | - |
| | Tigerair Taiwan Co., Ltd. | Taipei, Taiwan | Air transportation and maintenance of aircraft | 3,109,907 | 3,109,907 | 212,420,046 | 75.86 | 1,481,017 | (1,086,578) | (824,325) | Note 4 |
| | Taiwan Aircraft Maintenance and Engineering Co., Ltd. | Taoyuan, Taiwan | Aircraft maintenance | 1,350,000 | 1,350,000 | 135,000,000 | 100.00 | 628,068 | (71,737) | (71,725) | - |
| NORDAM Asia Ltd. | Taoyuan, Taiwan | Composite repair and manufacturing business | 37,975 | 37,975 | 3,797,500 | 49.00 | 35,211 | (5,216) | (2,556) | - | |
| Mandarin Airlines | Tigerair Taiwan Co., Ltd. | Taipei, Taiwan | Air transportation and maintenance of aircraft | 154,330 | 154,330 | 15,433,000 | 5.51 | 107,600 | (1,086,578) | (59,890) | - |
| | Taiwan Airport Services | Taipei, Taiwan | Airport services | 11,658 | 11,658 | 469,755 | 1.08 | 3,476 | (99,186) | (1,068) | - |
| 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 | 56,657 | 16,939 | 5,929 | - |
| Taiwan Airport Services | Taiwan Airport Service (Samoa) | Samoa | Airport services and investment | US\$ 5,877 | US\$ 5,877 | - | 100.00 | 388,833 | 18,090 | 18,090 | 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: Difference is due to lease arrangement between consolidated entities.

Note 5: Difference is due to acquisition.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA

FOR THE SIX MONTHS ENDED JUNE 30, 2021

(In Thousands of New Taiwan Dollars, 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 June 30, 2021 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of June 30, 2021 | Accumulated Inward Remittance of Earnings as of June 30, 2021 |
|---|-------------------------------------|---------------------------------|----------------------|---|------------------|--------|---|-----------------------------------|--|--------------------------|-------------------------------------|---|
| | | | | | Outflow | Inflow | | | | | | |
| Airport Air Cargo Terminal (Xiamen) Co., Ltd. | Forwarding and storage of air cargo | \$ 1,097,843 (RMB 254,480) | Indirect (Note 1) | \$ 116,601 (US\$ 4,186) | \$ - | \$ - | \$ 116,601 (US\$ 4,186) | \$ 86,900 (RMB 20,004) | 14.00 | \$ 11,643 (RMB 2,801) | \$ 249,252 (RMB 57,776) | \$ 98,511 (US\$ 3,537) (Note 2) |
| Airport Air Cargo Service (Xiamen) Co., Ltd. | Forwarding and storage of air cargo | 60,397 (RMB 14,000) | Indirect (Note 1) | 54,246 (US\$ 1,947) | - | - | 54,246 (US\$ 1,947) | 48,782 (RMB 11,230) | 14.00 | 6,518 (RMB 1,572) | 140,789 (RMB 32,634) | 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 | - | 10,178 (RMB 2,359) | 9,931 (US\$ 357) |

| Accumulated Outward Remittance for Investment in Mainland China as of June 30, 2021 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA |
|---|--|--|
| \$ 248,485 (US\$ 8,920) | \$ 607,107 (Note 3) | \$ 35,899,661 (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 June 30, 2021 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Income (Loss) | Carrying Amount as of June 30, 2021 | Accumulated Repatriation of Investment Income as of June 30, 2021 |
|---|-------------------------------------|-------------------------------|----------------------|---|---------------------|--------|---|-----------------------------------|--|--------------------------|-------------------------------------|---|
| | | | | | Outward | Inward | | | | | | |
| Airport Air Cargo Terminal (Xiamen) Co., Ltd. | Forwarding and storage of air cargo | \$ 1,097,843 (RMB 254,480) | Indirect (Note 5) | \$ 111,932 (US\$ 4,018) | \$ - | \$ - | \$ 111,932 (US\$ 4,018) | \$ 86,900 (RMB 20,004) | 14 | \$ 12,166 (RMB 2,801) | \$ 247,353 (RMB 57,336) | \$ 126,494 (US\$ 4,541) |
| Airport Air Cargo Service (Xiamen) Co., Ltd. | Forwarding and storage of air cargo | 60,397 (RMB 14,000) | Indirect (Note 5) | 53,670 (US\$ 1,927) | - | - | 53,670 (US\$ 1,927) | 48,782 (RMB 11,230) | 14 | 6,829 (RMB 1,572) | 140,663 (RMB 32,606) | 58,268 (US\$ 2,092) |

| Accumulated Outward Remittance for Investment in Mainland China as of June 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) | \$ 193,632 (Note 6) |

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

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

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

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

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

Note 6: The RMB and U.S. dollar amounts of assets are translated at 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 SIX MONTHS ENDED JUNE 30, 2021
(In Thousand New Taiwan Dollars)**

| No. | Company Name | Related Party | Natural of Relationship (Note 1) | Intercompany Transactions | | | |
|-----|--|--|----------------------------------|---------------------------------------|------------|-----------------------------------|---|
| | | | | Financial Statement Account | Amount | Transaction Criteria | % to Total Consolidated Total Revenue or Assets |
| 0 | China Airlines, Ltd. | Taoyuan International Airport Service | a | Airport service cost | \$ 514,167 | The same as ordinary transactions | 0.90 |
| | | Dynasty Aerotech International Corp. | a | Airport service cost | 176,860 | The same as ordinary transactions | 0.31 |
| | | Taiwan Air Cargo Terminal | a | Other operating cost | 364,005 | The same as ordinary transactions | 0.64 |
| | | Taoyuan International Airport Services | a | Accounts payable - related parties | 186,640 | The same as ordinary transactions | 0.07 |
| | | Mandarin Airlines | a | Accounts payable - related parties | 115,153 | The same as ordinary transactions | 0.04 |
| 1 | Taiwan Air Cargo Terminal | China Airlines, Ltd. | b | Sales revenue | 364,005 | The same as ordinary transactions | 0.64 |
| 2 | Mandarin Airlines | China Airlines, Ltd. | b | Accounts receivable - related parties | 115,153 | The same as ordinary transactions | 0.04 |
| 3 | Taoyuan International Airport Services | China Airlines, Ltd. | b | Airport service revenue | 514,167 | The same as ordinary transactions | 0.90 |
| | | China Airlines, Ltd. | b | Accounts receivable - related parties | 186,640 | The same as ordinary transactions | 0.07 |
| 4 | Dynasty Aerotech International Corp | China Airlines, Ltd. | b | Operating revenue | 176,860 | The same as ordinary transactions | 0.31 |

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

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

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

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

TABLE 9**CHINA AIRLINES, LTD. AND SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

| Name of Major Shareholder | Shares | |
|--|------------------|-----------------------------|
| | Number of Shares | Percentage of Ownership (%) |
| China Aviation Development Foundation (CADF) | 1,867,341,935 | 32.93 |
| National Development Fund (NDF) | 519,750,519 | 9.16 |

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.