

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2020 and 2019 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of China Airlines, Ltd. and its subsidiaries (the "Group") as of March 31, 2020 and 2019, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended, and the related notes, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

We did not review the financial statements of some subsidiaries included in the consolidated financial statements of the Group, but such statements were reviewed by other auditors. Our conclusion, insofar as it relates to the amounts included in the consolidated financial statements for these subsidiaries, is based solely on the reports of other auditors. The total assets of these subsidiaries were NT\$12,297,166 thousand and NT\$13,660,335 thousand, which constituted 4.17% and 4.62% of the consolidated total assets as of March 31, 2020 and 2019, and the total revenue was NT\$1,619,077 thousand and NT\$2,515,246 thousand, which constituted 4.97% and 6.23% of the consolidated total revenue for the three-month periods ended March 31, 2020 and 2019.

Scope of Review

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

Basis for Qualified Conclusion

As disclosed in Notes 12 and 13 to the accompanying consolidated financial statements, the financial statements of some non-significant subsidiaries and investments accounted for using the equity method were not reviewed. As of March 31, 2020 and 2019, the combined total assets of these non-significant subsidiaries were NT\$22,565,190 thousand and NT\$23,014,896 thousand, respectively, representing 7.64% and 7.79%, respectively, of the consolidated total assets, and the combined total liabilities of these non-significant subsidiaries were NT\$11,514,855 thousand and NT\$11,653,856 thousand, respectively, representing 4.81% and 4.94%, respectively, of the consolidated total liabilities; for the three-month periods ended March 31, 2020 and 2019, the

amounts of the combined comprehensive income of these non-significant subsidiaries were NT\$(103,781) thousand and NT\$225,704 thousand, respectively, representing 2.50% and (106.76%) respectively, of the consolidated total comprehensive income. As of March 31, 2020 and 2019, the aforementioned investments accounted for using the equity method were NT\$2,173,929 thousand and NT\$2,297,133 thousand, respectively; and for the three-month periods ended March 31, 2020 and 2019, the amounts of the Group's share of the profit of such investments accounted for using the equity method were NT\$(24,494) thousand and NT\$69,904 thousand, respectively.

Qualified Conclusion

Based on our reviews, except for adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and investments accounted for by using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 7, 2020

Notice to Readers

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2020 (Reviewed)		December 31, 2019 (Audited)		March 31, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4, 6 and 33)	\$ 39,600,960	13	\$ 28,459,528	10	\$ 23,352,393	8
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	567,970	-	512,192	-	245,816	-
Financial assets at amortized cost - current (Notes 4 and 9)	1,724,004	1	2,355,095	1	1,022,871	-
Financial assets for hedging - current (Notes 4 and 31)	12,473	-	9,626	-	34,471	-
Notes and accounts receivable, net (Notes 4, 5, 10 and 31)	7,046,769	2	8,520,834	3	9,133,715	3
Notes and accounts receivable - related parties (Note 32)	7,684	-	10,348	-	10,022	-
Other receivables (Note 31)	689,745	-	774,206	-	834,849	-
Current tax assets (Notes 4 and 27)	64,306	-	54,689	-	30,548	-
Inventories, net (Notes 4 and 11)	7,941,066	3	8,470,113	3	8,635,279	3
Other assets - current (Note 17)	1,872,669	1	2,655,711	1	2,485,416	1
Total current assets	59,527,646	20	51,822,342	18	45,785,380	15
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	210,925	-	209,221	-	150,315	-
Financial assets at amortized cost - non-current (Notes 4 and 9)	207,968	-	105,586	-	-	-
Investments accounted for using the equity method (Notes 4 and 13)	2,173,929	1	2,223,793	1	2,297,133	1
Property, plant and equipment (Notes 4, 5, 14 and 33)	142,531,989	48	145,886,971	50	160,105,308	54
Right-of-use assets (Notes 4, 20 and 33)	68,591,872	23	71,033,617	24	75,696,713	26
Investment properties (Notes 4 and 15)	2,075,000	1	2,075,068	1	2,075,274	1
Other intangible assets (Notes 4 and 16)	1,151,247	-	1,182,692	-	1,180,239	-
Deferred income tax asset (Notes 4, 5 and 27)	5,288,631	2	5,337,626	2	5,116,575	2
Other assets - non-current (Notes 17, 20, 31, 33 and 34)	13,476,986	5	13,171,063	4	3,212,761	1
Total noncurrent assets	235,708,547	80	241,225,637	82	249,834,318	85
TOTAL	\$ 295,236,193	100	\$ 293,047,979	100	\$ 295,619,698	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term debts (Note 18)	\$ 8,385,000	3	\$ 380,000	-	\$ 4,200,000	2
Short-term bills payable (Note 18)	8,788,145	3	-	-	820,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 31)	5,075	-	11,749	-	-	-
Financial liabilities for hedging - current (Notes 4, 20 and 31)	8,769,419	3	8,618,506	3	6,038,467	2
Notes and accounts payable (Note 31)	2,171,820	1	1,495,606	1	1,540,406	1
Notes and accounts payable - related parties (Note 32)	370,919	-	542,015	-	522,206	-
Contract liabilities - current (Notes 4, 5 and 22)	11,071,797	4	21,060,773	7	18,550,487	6
Other payables (Notes 21 and 31)	9,236,031	3	13,187,972	5	12,669,941	4
Current tax liabilities (Notes 4 and 27)	341,136	-	374,178	-	232,039	-
Provisions - current (Notes 4, 23 and 31)	343,645	-	360,393	-	202,999	-
Lease liabilities - current (Notes 4 and 20)	2,549,104	1	2,340,873	1	5,067,954	2
Bonds payable and put options of convertible bonds - current portion (Notes 4, 19 and 31)	13,022,470	4	10,000,000	3	2,750,000	1
Loans and debts - current portion (Notes 18, 31 and 33)	15,941,499	5	14,148,892	5	7,957,425	3
Other current liabilities (Note 31)	1,997,256	1	3,830,570	1	4,178,098	1
Total current liabilities	82,993,316	28	76,351,527	26	64,730,022	22
NON-CURRENT LIABILITIES						
Financial liabilities for hedging - non-current (Notes 4, 20 and 31)	40,472,454	14	42,420,205	15	34,543,623	12
Bonds payable - non-current (Notes 4, 19 and 31)	16,300,000	6	22,052,625	8	25,743,068	9
Loans and debts - non-current (Notes 18, 31 and 33)	60,337,972	20	53,514,891	18	59,887,265	20
Contract liabilities - non-current (Notes 4 and 22)	2,326,234	1	2,236,311	1	1,998,012	1
Provisions - non-current (Notes 4, 23 and 31)	11,057,817	4	10,011,464	3	9,198,632	3
Deferred tax liabilities (Notes 4 and 27)	397,517	-	557,142	-	192,828	-
Lease liabilities - non-current (Notes 4 and 20)	15,665,569	5	15,801,724	5	30,249,514	10
Accrued pension costs (Notes 4, 5 and 24)	9,218,089	3	9,435,035	3	8,634,866	3
Other noncurrent liabilities (Note 31)	472,647	-	534,938	-	622,688	-
Total non-current liabilities	156,248,299	53	156,564,335	53	171,070,496	58
Total liabilities	239,241,615	81	232,915,862	79	235,800,518	80
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 19 and 25)						
Share capital	54,209,846	19	54,209,846	19	54,209,846	18
Capital surplus	2,484,998	1	2,488,907	1	1,241,214	-
Retained earnings						
Legal reserve	466,416	-	466,416	-	351,923	-
Special reserve	12,967	-	12,967	-	118,810	-
Unappropriated retained earnings (accumulated deficits)	(5,552,292)	(2)	(1,777,225)	-	901,224	1
Total retained earnings	(5,072,909)	(2)	(1,297,842)	-	1,371,957	1
Other equity	862,386	-	1,196,233	-	(1,957)	-
Treasury shares	(30,875)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	52,453,446	18	56,553,772	20	56,777,688	19
NON-CONTROLLING INTERESTS (Note 25)	3,541,132	1	3,578,345	1	3,041,492	1
Total equity	55,994,578	19	60,132,117	21	59,819,180	20
TOTAL	\$ 295,236,193	100	\$ 293,047,979	100	\$ 295,619,698	100

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

(With Deloitte & Touche auditors' review report dated May 7, 2020)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
REVENUE (Notes 4, 26 and 32)	\$ 32,557,130	100	\$ 40,405,348	100
COSTS (Notes 4, 11, 16, 20, 23, 24, 26 and 32)	<u>32,336,262</u>	<u>99</u>	<u>36,191,909</u>	<u>90</u>
GROSS PROFIT	220,868	1	4,213,439	10
OPERATING EXPENSES (Notes 4, 24 and 26)	<u>3,191,724</u>	<u>10</u>	<u>3,451,966</u>	<u>8</u>
OPERATING PROFIT	<u>(2,970,856)</u>	<u>(9)</u>	<u>761,473</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	163,630	-	153,256	-
Other gains and losses (Notes 14 and 26)	(154,090)	-	(66,441)	-
Finance costs (Notes 26 and 30)	(820,672)	(3)	(875,831)	(2)
Share of the profit of associates and joint ventures (Note 13)	<u>(24,494)</u>	<u>-</u>	<u>69,904</u>	<u>-</u>
Total non-operating income and expenses	<u>(835,626)</u>	<u>(3)</u>	<u>(719,112)</u>	<u>(2)</u>
PROFIT (LOSS) BEFORE INCOME TAX	(3,806,482)	(12)	42,361	-
INCOME TAX EXPENSE (Notes 4 and 27)	<u>4,083</u>	<u>-</u>	<u>189,237</u>	<u>1</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>(3,810,565)</u>	<u>(12)</u>	<u>(146,876)</u>	<u>(1)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Gain on hedging instruments subject to basis adjustment	19,904	-	-	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	2,569	-	16,906	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	<u>(4,105)</u>	<u>-</u>	<u>(3,424)</u>	<u>-</u>
	<u>18,368</u>	<u>-</u>	<u>13,482</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 (Losses) Per Share) (Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	\$ (18,063)	-	\$ 23,676	-
Loss on hedging instruments not subject to basis adjustment (Notes 4, 20, 25 and 31)	(422,938)	(1)	(123,745)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 27)	<u>88,805</u>	<u>-</u>	<u>22,043</u>	<u>-</u>
	<u>(352,196)</u>	<u>(1)</u>	<u>(78,026)</u>	<u>-</u>
Other comprehensive loss for the period, net of income tax	<u>(333,828)</u>	<u>(1)</u>	<u>(64,544)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ (4,144,393)</u>	<u>(13)</u>	<u>\$ (211,420)</u>	<u>(1)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ (3,773,333)	(12)	\$ (243,704)	-
Non-controlling interests	<u>(37,232)</u>	<u>-</u>	<u>96,828</u>	<u>-</u>
	<u>\$ (3,810,565)</u>	<u>(12)</u>	<u>\$ (146,876)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ (4,107,180)	(13)	\$ (312,357)	(1)
Non-controlling interests	<u>(37,213)</u>	<u>-</u>	<u>100,937</u>	<u>-</u>
	<u>\$ (4,144,393)</u>	<u>(13)</u>	<u>\$ (211,420)</u>	<u>(1)</u>
EARNINGS (LOSSES) PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic	<u>\$ (0.70)</u>		<u>\$ (0.04)</u>	
Diluted	<u>\$ (0.70)</u>		<u>\$ (0.04)</u>	

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

(With Deloitte & Touche auditors' review report dated May 7, 2020)

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company										Non-controlling Interests	Total Equity
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Other Equity Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Gain (Loss) on Hedging Instruments	Treasury Stock Held by Subsidiaries	Total		
BALANCE AT JANUARY 1, 2019	\$ 54,209,846	\$ 1,241,214	\$ 351,923	\$ 118,810	\$ 1,144,928	\$ (9,664)	\$ 42,619	\$ 25,268	\$ (43,372)	\$ 57,081,572	\$ 2,965,512	\$ 60,047,084
Net profit (loss) for the three months ended March 31, 2019	-	-	-	-	(243,704)	-	-	-	-	(243,704)	96,828	(146,876)
Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	16,359	13,482	(98,494)	-	(68,653)	4,109	(64,544)
Total comprehensive income (loss) for the three months ended March 31, 2019	-	-	-	-	(243,704)	16,359	13,482	(98,494)	-	(312,357)	100,937	(211,420)
Loss of control of subsidiaries	-	-	-	-	-	8,368	105	-	-	8,473	(24,957)	(16,484)
BALANCE AT MARCH 31, 2019	<u>\$ 54,209,846</u>	<u>\$ 1,241,214</u>	<u>\$ 351,923</u>	<u>\$ 118,810</u>	<u>\$ 901,224</u>	<u>\$ 15,063</u>	<u>\$ 56,206</u>	<u>\$ (73,226)</u>	<u>\$ (43,372)</u>	<u>\$ 56,777,688</u>	<u>\$ 3,041,492</u>	<u>\$ 59,819,180</u>
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
Net loss for the three months ended March 31, 2020	-	-	-	-	(3,773,333)	-	-	-	-	(3,773,333)	(37,232)	(3,810,565)
Other comprehensive income (loss) for the three months ended March 31, 2020, net of income tax	-	-	-	-	-	(13,686)	2,445	(322,606)	-	(333,847)	19	(333,828)
Total comprehensive income (loss) for the three months ended March 31, 2020	-	-	-	-	(3,773,333)	(13,686)	2,445	(322,606)	-	(4,107,180)	(37,213)	(4,144,393)
Disposal of treasury shares	-	(3,909)	-	-	(1,734)	-	-	-	12,497	6,854	-	6,854
BALANCE AT MARCH 31, 2020	<u>\$ 54,209,846</u>	<u>\$ 2,484,998</u>	<u>\$ 466,416</u>	<u>\$ 12,967</u>	<u>\$ (5,552,292)</u>	<u>\$ (68,393)</u>	<u>\$ 109,707</u>	<u>\$ 821,072</u>	<u>\$ (30,875)</u>	<u>\$ 52,453,446</u>	<u>\$ 3,541,132</u>	<u>\$ 55,994,578</u>

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

(With Deloitte & Touche auditors' review report dated May 7, 2020)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	\$ (3,806,482)	\$ 42,361
Adjustments for:		
Depreciation expenses	8,167,598	8,206,346
Amortization expenses	49,902	49,842
Expected credit loss recognized on trade receivables	172	8,382
Net gain on fair value changes of financial assets and liabilities held for trading	(3,296)	(11,140)
Interest income	(88,300)	(96,955)
Share of loss (profit) of associates and joint ventures	24,494	(69,904)
Gain on disposal of property, plant and equipment	(5,121)	(1,349)
Loss on disposal of non-current assets held for sale	-	10,462
Gain on disposal of investments	-	(7,656)
Loss on inventories and property, plant and equipment	220,263	307,608
Net loss on foreign currency exchange	11,053	62,929
Finance costs	820,672	875,831
Recognition of provisions	1,443,036	1,061,129
Others	16,860	-
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(52,608)	(28,863)
Financial liabilities classified as at fair value through profit or loss	(6,674)	(221)
Notes and accounts receivable	1,413,470	859,879
Accounts receivable - related parties	709,392	(107,342)
Other receivables	42,345	88,887
Inventories	848,941	(240,529)
Other current assets	833,409	906,515
Notes and accounts payable	496,061	(556,339)
Accounts payable - related parties	(881,463)	46,360
Other payables	(3,678,880)	(723,887)
Contract liabilities	(9,899,054)	(809,885)
Provisions	(469,834)	(480,795)
Other current liabilities	(1,889,113)	303,824
Accrued pension liabilities	(216,946)	(155,688)
Other liabilities	(20,271)	5,797
Cash (used in) generated from operations	(5,920,374)	9,545,599
Interest received	94,316	104,346
Interest paid	(893,895)	(910,199)
Income tax paid	(18,968)	(35,387)
Net cash (used in) generated from operating activities	<u>(6,738,921)</u>	<u>8,704,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of amortized cost financial assets	(73,012)	(61,728)
Disposal of amortized cost financial assets	602,195	2,677,338

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CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2020	2019
Proceeds from disposal of non-current assets held for sale	\$ -	\$ 35,692
Payments for property, plant and equipment	(258,811)	(631,083)
Proceeds from disposal of property, plant and equipment	6,946	10,851
Increase in refundable deposits	(167,653)	(51,233)
Decrease in refundable deposits	13,382	38,620
Increase in prepayments for equipment	(1,976,671)	(1,568,331)
Increase in computer software costs	(18,457)	(21,786)
Increase in restricted assets	(34,483)	(6,844)
Net cash outflow on disposal of associates (Note 29)	<u>-</u>	<u>(17,413)</u>
Net cash (used in) generated from investing activities	<u>(1,906,564)</u>	<u>404,083</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debts	7,405,000	4,200,000
Increase in short-term bills payable	8,788,145	820,000
Repayments of bonds payable	(2,750,000)	(4,445,900)
Proceeds from long-term debts	13,582,703	688,993
Repayments of long-term debts	(4,367,016)	(9,277,712)
Repayments of the principal portion of lease liabilities	(2,870,281)	(2,725,995)
Proceeds of guarantee deposits received	13,809	40,094
Refund from guarantee deposits received	(54,935)	(42,815)
Proceeds from disposal of treasury shares	<u>6,854</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>19,754,279</u>	<u>(10,743,335)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>32,638</u>	<u>49,749</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	11,141,432	(1,585,144)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		
	<u>28,459,528</u>	<u>24,937,537</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
	<u>\$ 39,600,960</u>	<u>\$ 23,352,393</u>

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

(With Deloitte & Touche auditors' review report dated May 7, 2020)

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

The major shareholders of the Company are the China Aviation Development Foundation (“CADF”) and the National Development Fund (“NDF”), Executive Yuan. As of March 31, 2020, December 31, 2019 and March 31, 2019, CADF and NDF held a combined 44.03% of the Company’s shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) were approved by the board of directors and authorized for issue on May 7, 2020.

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

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

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note)</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) 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
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

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.

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, 2019.

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand and revolving fund	\$ 30,760	\$ 483,951	\$ 398,043
Checking accounts and demand deposits	15,916,090	7,206,938	9,310,641
Cash equivalents			
Time deposits with original maturities of less than three months	11,246,906	16,565,821	12,533,288
Repurchase agreements collateralized by bonds	<u>12,407,204</u>	<u>4,202,818</u>	<u>1,110,421</u>
	<u>\$ 39,600,960</u>	<u>\$ 28,459,528</u>	<u>\$ 23,352,393</u>

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

	March 31, 2020	December 31, 2019	March 31, 2019
Bank balance	0.00%-1.90%	0.00%-1.90%	0.00%-1.90%
Time deposits with original maturities of less than three months	0.34%-3.15%	0.59%-3.55%	0.59%-3.20%
Repurchase agreements collateralized by bonds	0.39%-3.55%	0.47%-0.70%	0.55%-0.63%

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

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets - current</u>			
Financial assets mandatorily classified at FVTPL			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	\$ 30	\$ 434	\$ 7,216
Non-derivative financial assets			
Beneficial certificates	<u>567,940</u>	<u>511,758</u>	<u>238,600</u>
	<u>\$ 567,970</u>	<u>\$ 512,192</u>	<u>\$ 245,816</u>
<u>Financial liabilities - current</u>			
Financial liabilities held for trading			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	<u>\$ 5,075</u>	<u>\$ 11,749</u>	<u>\$ -</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>March 31, 2020</u>			
Buy forward contracts	NTD/USD	2020.4.23-2020.7.31	NTD271,903/USD9,000
<u>December 31, 2019</u>			
Buy forward contracts	NTD/USD	2020.1.15-2020.7.31	NTD570,571/USD19,000
<u>March 31, 2019</u>			
Buy forward contracts	NTD/USD	2019.4.26-2019.10.29	NTD246,914/USD8,000

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Non-current</u>			
Foreign investments			
Unlisted shares	\$ 182,109	\$ 182,356	\$ 128,788
Domestic investments			
Unlisted shares	<u>28,816</u>	<u>26,865</u>	<u>21,527</u>
	<u>\$ 210,925</u>	<u>\$ 209,221</u>	<u>\$ 150,315</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Current</u>			
Time deposits with original maturities of more than 3 months	<u>\$ 1,724,004</u>	<u>\$ 2,355,095</u>	<u>\$ 1,022,871</u>
<u>Non-current</u>			
Time deposits with original maturities of more than 1 year	<u>\$ 207,968</u>	<u>\$ 105,586</u>	<u>\$ -</u>

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.40% to 2.75%, from 0.60% to 2.75% and from 0.40% to 3.12% as of March 31, 2020, December 31, 2019 and March 31, 2019.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Notes receivable</u>	<u>\$ 11,401</u>	<u>\$ 299,245</u>	<u>\$ 415,630</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	7,254,151	8,440,254	8,952,971
Less: Allowance for impairment loss	<u>(218,783)</u>	<u>(218,665)</u>	<u>(234,886)</u>
	<u>7,035,368</u>	<u>8,221,589</u>	<u>8,718,085</u>
	<u>\$ 7,046,769</u>	<u>\$ 8,520,834</u>	<u>\$ 9,133,715</u>

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

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

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

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

March 31, 2020

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.07%	0.39%	7.67%	14.50%	99.27%	
Gross carrying amount	\$ 5,648,200	\$ 1,251,611	\$ 46,419	\$ 116,938	\$ 190,983	\$ 7,254,151
Loss allowance (lifetime ECLs)	<u>(3,834)</u>	<u>(4,841)</u>	<u>(3,562)</u>	<u>(16,956)</u>	<u>(189,590)</u>	<u>(218,783)</u>
Amortized cost	<u>\$ 5,644,366</u>	<u>\$ 1,246,770</u>	<u>\$ 42,857</u>	<u>\$ 99,982</u>	<u>\$ 1,393</u>	<u>\$ 7,035,368</u>

December 31, 2019

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.12%	0.15%	6.16%	15.25%	97.18%	
Gross carrying amount	\$ 6,705,662	\$ 1,332,640	\$ 97,700	\$ 113,716	\$ 190,536	\$ 8,440,254
Loss allowance (lifetime ECLs)	<u>(8,123)</u>	<u>(2,019)</u>	<u>(6,021)</u>	<u>(17,340)</u>	<u>(185,162)</u>	<u>(218,665)</u>
Amortized cost	<u>\$ 6,697,539</u>	<u>\$ 1,330,621</u>	<u>\$ 91,679</u>	<u>\$ 96,376</u>	<u>\$ 5,374</u>	<u>\$ 8,221,589</u>

March 31, 2019

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.05%	0.06%	1.15%	23.73%	99.57%	
Gross carrying amount	\$ 7,356,799	\$ 1,035,131	\$ 303,680	\$ 38,842	\$ 218,519	\$ 8,952,971
Loss allowance (lifetime ECLs)	<u>(3,929)</u>	<u>(658)</u>	<u>(3,504)</u>	<u>(9,216)</u>	<u>(217,579)</u>	<u>(234,886)</u>
Amortized cost	<u>\$ 7,352,870</u>	<u>\$ 1,034,473</u>	<u>\$ 300,176</u>	<u>\$ 29,626</u>	<u>\$ 940</u>	<u>\$ 8,718,085</u>

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

	For the Three Months Ended March 31	
	2020	2019
Balance at January 1	\$ 218,665	\$ 227,306
Add: Net remeasurement of loss allowance	172	8,382
Less: Amounts written off	(55)	(785)
Foreign exchange gains and losses	1	-
Disposal of a subsidiary	<u>-</u>	<u>(17)</u>
Balance at March 31	<u>\$ 218,783</u>	<u>\$ 234,886</u>

11. INVENTORIES

	March 31, 2020	December 31, 2019	March 31, 2019
Aircraft spare parts	\$ 7,217,977	\$ 7,578,125	\$ 7,455,640
Items for in-flight sale	602,247	571,601	556,688
Work in process - maintenance services	96,585	283,933	598,592
Others	<u>24,257</u>	<u>36,454</u>	<u>24,359</u>
	<u>\$ 7,941,066</u>	<u>\$ 8,470,113</u>	<u>\$ 8,635,279</u>

The operating costs recognized for the three months ended March 31, 2020 and 2019 included losses from inventory write-downs of \$139,463 thousand and \$262,974 thousand, respectively.

12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)		
			March 31, 2020	December 31, 2019	March 31, 2019
China Airlines, Ltd.	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	77	77	100
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100	100
	Cal-Dynasty International	A holding company, real estate and hotel services	100	100	100
	Cal-Asia Investment	General investment	100	100	100
	Dynasty Aerotech International Corp.	Cleaning of aircraft and maintenance of machine and equipment	100	100	100
	Yestrip	Travel business	100	100	100
	Cal Park	Real estate lease and international trade	100	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100	100
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59	59
	Kaohsiung Catering Services, Ltd.	In-flight catering	54	54	54
	Taoyuan International Airport Services	Airport services	49	49	49
	Taiwan Airport Services (Note)	Airport services	48	48	48
	Global Sky Express	Forwarding and storage of air cargo	25	25	25
	Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
Dynasty Hotel of Hawaii, Inc.		Hotel business	100	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100	100

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

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the three months ended March 31, 2020 and 2019 of these subsidiaries was reported according to information that was not independently reviewed except for that of Mandarin Airlines and Tigerair Taiwan Co., Ltd.

In order to prepare the listing of Tigerair Taiwan Co., Ltd. and comply with the rules relating to the examination for public listing, the release of the shares of Tigerair Taiwan Co., Ltd. held by the Company and Mandarin Airlines was resolved in the shareholders' meeting of the Company on June 25, 2019, and in the shareholders' meeting of Mandarin Airlines on June 27, 2019. The shares shall be subscribed by all shareholders of the Company and Mandarin Airlines on the basis of the percentage of shareholdings. For the subscribed shares that the original shareholders waived or for the undersubscribed portion, the chairman was authorized to contact specific persons to subscribe. The subscription price was set at \$41 per share. In October and December 2019, the stock price was fully paid and the shares were completely delivered and transferred. A total amount of 45,661,000 shares was disposed, and the proportion of ownership decreased to 77%. The proceeds from disposal were \$1,866,474 thousand. Since the Company did not lose control of the subsidiary, the related gain on disposal was \$1,254,633 thousand and recognized in the capital surplus account.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	March 31, 2020	December 31, 2019	March 31, 2019
Investments in associates	\$ 1,161,492	\$ 1,208,495	\$ 1,259,016
Investments in jointly controlled entities	<u>1,012,437</u>	<u>1,015,298</u>	<u>1,038,117</u>
	<u>\$ 2,173,929</u>	<u>\$ 2,223,793</u>	<u>\$ 2,297,133</u>

a. Investments in associates

The amount of investments in associates were as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Unlisted companies</u>			
China Aircraft Services	\$ 412,463	\$ 461,263	\$ 499,664
Dynasty Holidays	9,573	10,004	10,036
Airport Air Cargo Terminal (Xiamen)	445,285	446,161	457,207
Airport Air Cargo Service (Xiamen)	251,102	248,350	245,236
Eastern United International Logistics (Holdings) Ltd.	<u>43,069</u>	<u>42,717</u>	<u>46,873</u>
	<u>\$ 1,161,492</u>	<u>\$ 1,208,495</u>	<u>\$ 1,259,016</u>

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

Name of Associate	<u>Proportion of Ownership and Voting Rights</u>		
	March 31, 2020	December 31, 2019	March 31, 2019
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.	35%	35%	35%

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

	For the Three Months Ended March 31	
	2020	2019
China Aircraft Services	\$ (29,700)	\$ 1,850
Asian Compressor Technology Services	(576)	(3)
Airport Air Cargo Terminal (Xiamen)	2,975	4,140
Airport Air Cargo Service (Xiamen)	4,943	6,429
Eastern United International Logistics (Holdings) Ltd.	<u>725</u>	<u>1,657</u>
	<u>\$ (21,633)</u>	<u>\$ 14,073</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 to the related information presented in these consolidated financial statements had this investee's financial statements been independently reviewed.

The board of directors of the Company decided to sell part of the equity of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. on January 21, 2019, and completed the transaction on January 31, 2019. After the sale of the equity, the Group's holding of the issued share capital decreased from 51% to 20%. Dynasty Holidays was classified as an associate since the Group lost control of the subsidiary. Therefore, the relevant assets and liabilities were not consolidated in the current period, and only the profit and loss from January 1, 2019 to January 31, 2019 was consolidated. For the information about the disposal of the subsidiary, please refer to Note 29.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
China Pacific Catering Services	\$ 799,660	\$ 801,071	\$ 858,272
China Pacific Laundry Services	167,097	168,547	169,617
NORDAM Asia Ltd.	37,812	37,813	2,358
Delica International Co., Ltd.	<u>7,868</u>	<u>7,867</u>	<u>7,870</u>
	<u>\$ 1,012,437</u>	<u>\$ 1,015,298</u>	<u>\$ 1,038,117</u>

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

	Proportion of Ownership and Voting Rights		
	March 31, 2020	December 31, 2019	March 31, 2019
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%
NORDAM Asia Ltd.	49%	49%	49%
Delica International Co., Ltd.	51%	51%	51%

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

To enhance the Group's maintenance capabilities, the Company established a joint venture with the US NORDAM Aerospace Group in December 2017, planning to provide thrust reversers and composite repair services in Asia under the NORDAM brand. NORDAM has filed for Chapter 11 bankruptcy reorganization in the USA on July 22, 2018 to solve the business dispute with their cooperative partner, so their company operation was not impacted. As a result, NORDAM Asia suspended its operation from October 5, 2018 to October 4, 2019 and resumed business on October 4, 2019. The Company increased the capital of NORDAM Asia by \$35,525 thousand in November 2019.

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

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

	For the Three Months Ended March 31	
	2020	2019
China Pacific Catering Services	\$ (1,411)	\$ 53,115
China Pacific Laundry Services	(1,449)	2,716
NORDAM Asia Ltd.	(1)	-
Delica International Co., Ltd.	<u>-</u>	<u>-</u>
	<u>\$ (2,861)</u>	<u>\$ 55,831</u>

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,015,564	\$ 13,993,585	\$ 259,695,130	\$ 25,805,008	\$ 17,917,780	\$ 318,427,067
Additions	-	6,183	378,837	-	246,063	631,083
Disposals	-	-	(1,022,195)	(22,977)	(65,242)	(1,110,414)
Reclassification	-	-	24,252,637	(23,379,455)	290,378	1,163,560
Net exchange differences	1,678	2,993	-	-	307	4,978
Disposal of a subsidiary	-	-	-	(4,474)	(2,158)	(6,632)
Balance at March 31, 2019	<u>\$ 1,017,242</u>	<u>\$ 14,002,761</u>	<u>\$ 283,304,409</u>	<u>\$ 2,398,102</u>	<u>\$ 18,387,128</u>	<u>\$ 319,109,642</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2019	\$ -	\$ (6,574,873)	\$ (123,507,657)	\$ (14,634,822)	\$ (10,601,997)	\$ (155,319,349)
Depreciation expenses	-	(103,004)	(4,432,636)	(532,944)	(231,259)	(5,299,843)
Disposals	-	-	977,478	22,977	64,467	1,064,922
Reclassification	-	-	(13,172,836)	13,731,051	554	558,769
Net exchange differences	-	(8,401)	-	-	(4,271)	(12,672)
Disposal of a subsidiary	-	-	-	2,112	1,727	3,839
Balance at March 31, 2019	<u>\$ -</u>	<u>\$ (6,686,278)</u>	<u>\$ (140,135,651)</u>	<u>\$ (1,411,626)</u>	<u>\$ (10,770,779)</u>	<u>\$ (159,004,334)</u>
Balance at March 31, 2019, net value	<u>\$ 1,017,242</u>	<u>\$ 7,316,483</u>	<u>\$ 143,168,758</u>	<u>\$ 986,476</u>	<u>\$ 7,616,349</u>	<u>\$ 160,105,308</u>
<u>Cost</u>						
Balance at January 1, 2020	\$ 1,002,499	\$ 16,084,063	\$ 272,077,692	\$ -	\$ 16,846,835	\$ 306,011,089
Additions	-	13,264	181,295	-	64,252	258,811
Disposals	-	-	(1,256,170)	-	(55,690)	(1,311,860)
Reclassification	-	-	1,358,008	-	12,328	1,370,336
Net exchange differences	3,207	5,817	-	-	605	9,629
Balance at March 31, 2020	<u>\$ 1,005,706</u>	<u>\$ 16,103,144</u>	<u>\$ 272,360,825</u>	<u>\$ -</u>	<u>\$ 16,868,330</u>	<u>\$ 306,338,005</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	-	(122,706)	(4,550,598)	-	(233,605)	(4,906,909)
Disposals	-	-	1,177,898	-	54,790	1,232,688
Reclassification	-	-	536	-	(536)	-
Net exchange differences	-	(2,973)	-	-	(4,704)	(7,677)
Balance at March 31, 2020	<u>\$ -</u>	<u>\$ (7,154,219)</u>	<u>\$ (145,258,334)</u>	<u>\$ -</u>	<u>\$ (11,393,463)</u>	<u>\$ (163,806,016)</u>
Balance at March 31, 2020, net value	<u>\$ 1,005,706</u>	<u>\$ 8,948,925</u>	<u>\$ 127,102,491</u>	<u>\$ -</u>	<u>\$ 5,474,867</u>	<u>\$ 142,531,989</u>

Reclassification was mainly aircraft prepayment.

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

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

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.

15. INVESTMENT PROPERTIES

	March 31, 2020	December 31, 2019	March 31, 2019
Carrying amount			
Investment properties	<u>\$ 2,075,000</u>	<u>\$ 2,075,068</u>	<u>\$ 2,075,274</u>

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

The fair values of the investment properties held by the Group were both \$2,506,230 thousand as of December 31, 2019 and March 31, 2019, respectively. In addition, management assessed that there is no significant difference in the fair values of March 31, 2020 and December 31, 2019.

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.

16. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Goodwill	Accumulated Amortization	Net Value
Balance at January 1, 2019	\$ 2,237,382	\$ 186,197	\$ (1,212,783)	\$ 1,210,796
Additions	21,786	-	-	21,786
Amortization expenses	-	-	(49,842)	(49,842)
Acquisitions through business combinations	<u>(3,858)</u>	<u>-</u>	<u>1,357</u>	<u>(2,501)</u>
Balance at March 31, 2019	<u>\$ 2,255,310</u>	<u>\$ 186,197</u>	<u>\$ (1,261,268)</u>	<u>\$ 1,180,239</u>
Balance at January 1, 2020	\$ 2,406,163	\$ 186,197	\$ (1,409,668)	\$ 1,182,692
Additions	18,457	-	-	18,457
Amortization expenses	<u>-</u>	<u>-</u>	<u>(49,902)</u>	<u>(49,902)</u>
Balance at March 31, 2020	<u>\$ 2,424,620</u>	<u>\$ 186,197</u>	<u>\$ (1,459,570)</u>	<u>\$ 1,151,247</u>

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

17. OTHER ASSETS

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Current</u>			
Temporary payments	\$ 254,893	\$ 296,759	\$ 167,769
Prepayments	1,292,328	1,690,368	1,565,279
Restricted assets	42,120	14,618	20,412
Others	<u>283,328</u>	<u>653,966</u>	<u>731,956</u>
	<u>\$ 1,872,669</u>	<u>\$ 2,655,711</u>	<u>\$ 2,485,416</u>
<u>Non-current</u>			
Prepayments for aircraft	\$ 8,983,412	\$ 8,863,861	\$ 593,921
Prepayments - long-term	2,874,778	2,819,575	1,356,804
Refundable deposits	1,412,591	1,261,611	1,059,590
Restricted assets	63,807	64,213	98,954
Other financial assets	3,384	19,103	-
Others	<u>139,014</u>	<u>142,700</u>	<u>103,492</u>
	<u>\$ 13,476,986</u>	<u>\$ 13,171,063</u>	<u>\$ 3,212,761</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of ATR72-600, A321neo, A320neo and B777F aircraft. For details on the aircraft purchase contracts, refer to Note 34.

18. BORROWINGS

a. Short-term loans

	March 31, 2020	December 31, 2019	March 31, 2019
Bank loans - unsecured	<u>\$ 8,385,000</u>	<u>\$ 380,000</u>	<u>\$ 4,200,000</u>
Interest rates	0.87%-1.12%	0.95%-1.07%	0.87%-1.04%

b. Short-term and bills payable

	March 31, 2020	December 31, 2019	March 31, 2019
Commercial paper	\$ 8,859,472	\$ -	\$ 820,000
Less: Unamortized discount on bills payable	<u>71,327</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,788,145</u>	<u>\$ -</u>	<u>\$ 820,000</u>
Annual discount rate	1.00%-1.17%	-	1.01%-1.04%

c. Long-term debts

	March 31, 2020	December 31, 2019	March 31, 2019
Unsecured bank loans	\$ 5,957,500	\$ 1,929,827	\$ 5,512,500
Secured bank loans	34,939,168	34,064,099	36,107,660
Commercial paper			
Proceeds from issue	35,420,000	31,730,000	26,260,000
Less: Unamortized discounts	<u>37,197</u>	<u>60,143</u>	<u>35,470</u>
	76,279,471	67,663,783	67,844,690
Less: Current portion	<u>15,941,499</u>	<u>14,148,892</u>	<u>7,957,425</u>
	<u>\$ 60,337,972</u>	<u>\$ 53,514,891</u>	<u>\$ 59,887,265</u>
Interest rates	1.00%-1.79%	1.08%-1.79%	0.92%-1.78%

For information on secured bank loans which were secured by freehold, buildings, machinery equipment and flight equipment. For details of such security, refer to Note 33.

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

	March 31, 2020	December 31, 2019	March 31, 2019
Periods	2009.2.4- 2032.3.5	2008.2.26- 2030.4.25	2007.5.24- 2030.4.25

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2025, were used by the Group to guarantee the commercial paper issued. As of March 31, 2020, December 31, 2019 and March 31, 2019, such commercial paper was issued at discount rates of 0.9993%-1.1650%, 1.1300%-1.3380% and 1.0377%-1.1660%, respectively.

19. BONDS PAYABLE

	March 31, 2020	December 31, 2019	March 31, 2019
Unsecured corporate bonds first-time issued in 2013	\$ -	\$ 2,750,000	\$ 2,750,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	2,350,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	4,500,000	4,500,000
Unsecured corporate bonds first-time issued in 2019	3,500,000	3,500,000	-
Convertible bonds sixth-time issues	<u>5,772,470</u>	<u>5,752,625</u>	<u>5,693,068</u>
	29,322,470	32,052,625	28,493,068
Less: Current portion and put option of convertible bonds	<u>13,022,470</u>	<u>10,000,000</u>	<u>2,750,000</u>
	<u>\$ 16,300,000</u>	<u>\$ 22,052,625</u>	<u>\$ 25,743,068</u>

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.1.17-2020.1.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.5.26-2021.5.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.9.27-2021.9.27	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.5.19-2020.5.19	Principal repayable on due date; indicator rate; payable annually	1.2
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% 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
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2021 and 2022; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year 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.	2018.1.30-2023.1.30	Unless bonds are converted to share capital or redeemed, principal repayable one time in January 2023; 1.3821 discount rate p.a.	-

The Company issued its 2016 first unsecured corporate bonds with a face value of \$5,000,000 thousand, and the purchasers of the bonds included Mandarin Airlines and Sabre Travel Network (Taiwan), who held a cumulative face value of \$300,000 thousand which was eliminated from the consolidated financial statements.

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

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

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

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

The seventh issue of the Company's unsecured convertible bonds was resolved by the board of directors of the Company on August 7, 2019. The cumulative face value of the bonds shall not exceed \$3,000,000 thousand. The bonds are issued at 100%-100.5% of the face value, and the issuance period is 5 years. The period of public offerings has been extended to July 3, 2020 with the approval of the competent authority.

20. LEASE AGREEMENTS

- a. Right-of-use assets

	March 31, 2020	December 31, 2019	March 31, 2019
Carrying amounts			
Land	\$ 8,170,745	\$ 8,153,382	\$ 8,439,908
Buildings	1,291,054	824,955	1,227,444
Flight equipment	59,127,742	62,052,701	66,027,560
Other equipment	<u>2,331</u>	<u>2,579</u>	<u>1,801</u>
	<u>\$ 68,591,872</u>	<u>\$ 71,033,617</u>	<u>\$ 75,696,713</u>

	For the Three Months Ended March 31	
	2020	2019
Additions to right-of-use assets	<u>\$ 720,868</u>	<u>\$ 711,915</u>
Depreciation for right-of-use assets		
Land	\$ 155,719	\$ 104,901
Buildings	290,064	188,041
Flight equipment	2,814,198	2,612,959
Other equipment	<u>640</u>	<u>532</u>
	<u>\$ 3,260,621</u>	<u>\$ 2,906,433</u>

Except for the additions and recognitions of depreciation expense listed above, the Group's Right-of-use asset for the three months ended March 31, 2020 and 2019 did not have significant sublease and impairment.

b. Lease liabilities

	March 31, 2020	December 31, 2019	March 31, 2019
Carrying amounts			
Current	<u>\$ 2,549,104</u>	<u>\$ 2,340,873</u>	<u>\$ 5,067,954</u>
Non-current	<u>\$ 15,665,569</u>	<u>\$ 15,801,724</u>	<u>\$ 30,249,514</u>

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

	March 31, 2020	December 31, 2019	March 31, 2019
Land	0%-1.65%	1.09%-1.65%	0%-2.87%
Buildings	0%-3.56%	0%-3.56%	0%-3.04%
Flight equipment	2.00%-3.34%	2.49%-3.34%	2.00%-3.34%
Other equipment	1.06%-1.50%	1.06%-1.50%	1.06%-1.73%

c. Financial liabilities under hedge accounting

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

	Maturity Date	Subject	Carrying Value
March 31, 2020	2021.4.15-2028.5.15	Financial liabilities for hedging - current	\$ 8,678,982
		Financial liabilities for hedging - non-current	40,472,454
December 31, 2019	2021.4.15-2028.5.15	Financial liabilities for hedging - current	8,577,482
		Financial liabilities for hedging - non-current	42,420,205
March 31, 2019	2021.4.30-2028.5.31	Financial liabilities for hedging - current	6,037,462
		Financial liabilities for hedging - non-current	34,543,623

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the three months ended March 31, 2020	\$ (356,468)	\$ 50,487
For the three months ended March 31, 2019	(124,864)	-

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

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

	March 31, 2020	December 31, 2019	March 31, 2019
Refundable deposits	\$ 771,140	\$ 737,895	\$ 676,423
Credit guarantees	1,868,105	1,717,953	1,622,859

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, refer to Note 34. The lease includes an option to extend the lease, as it is not possible to extend the lease, the amount of the lease related to the period covered by the option is not included in the lease liability.

If the amount of the extended lease period is included in the lease liability, the lease liability will increase by \$876,820 thousand, \$873,293 thousand and \$865,173 thousand on March 31, 2020, December 31, 2019 and March 31, 2019, 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 letter of intent for eight A321neo with CALC Lease Corporation, which is expected to be introduced in 2022.

In September 2019, Tigerair Taiwan Co., Ltd. signed a rental letter of intent for eight A321neo with ICBC Lease Corporation, which is expected to be introduced between 2021 and 2024.

- f. Other lease information

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

	For the Three Months Ended March 31	
	2020	2019
Short-term and low price lease payment	<u>\$ 6,384</u>	<u>\$ 8,303</u>
Total of lease cash outflow	<u>\$ (3,314,349)</u>	<u>\$ (2,808,101)</u>

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

21. OTHER PAYABLES

	March 31, 2020	December 31, 2019	March 31, 2019
Fuel costs	\$ 1,798,469	\$ 3,723,213	\$ 3,615,683
Ground service expenses	1,009,103	1,262,878	1,301,543
Repair expenses	1,017,554	1,208,875	1,102,264
Interest expenses	250,531	219,660	224,876
Short-term employee benefits	1,734,796	2,040,718	1,611,412
Terminal surcharges	672,530	1,122,532	955,500
Commission expenses	497,470	509,520	546,368
Others	<u>2,255,578</u>	<u>3,100,576</u>	<u>3,312,295</u>
	<u>\$ 9,236,031</u>	<u>\$ 13,187,972</u>	<u>\$ 12,669,941</u>

22. CONTRACT LIABILITIES/DEFERRED REVENUE

	March 31, 2020	December 31, 2019	March 31, 2019
Frequent flyer program	\$ 3,034,418	\$ 2,895,535	\$ 2,591,215
Advance ticket sales	<u>10,363,613</u>	<u>20,401,549</u>	<u>17,957,284</u>
	<u>\$ 13,398,031</u>	<u>\$ 23,297,084</u>	<u>\$ 20,548,499</u>
Current	\$ 11,071,797	\$ 21,060,773	\$ 18,550,487
Non-current	<u>2,326,234</u>	<u>2,236,311</u>	<u>1,998,012</u>
	<u>\$ 13,398,031</u>	<u>\$ 23,297,084</u>	<u>\$ 20,548,499</u>

23. PROVISIONS

	March 31, 2020	December 31, 2019	March 31, 2019
Operating leases - aircraft	<u>\$ 11,401,462</u>	<u>\$ 10,371,857</u>	<u>\$ 9,401,631</u>
Current	\$ 343,645	\$ 360,393	\$ 202,999
Non-current	<u>11,057,817</u>	<u>10,011,464</u>	<u>9,198,632</u>
	<u>\$ 11,401,462</u>	<u>\$ 10,371,857</u>	<u>\$ 9,401,631</u>
			Aircraft Lease Contracts
Balance at January 1, 2019			\$ 8,794,539
Additional provisions recognized			1,061,129
Usage			(480,795)
Effects of exchange rate changes			<u>26,758</u>
Balance at March 31, 2019			<u>\$ 9,401,631</u>
Balance at January 1, 2020			\$ 10,371,857
Additional provisions recognized			1,443,036
Usage			(469,834)
Effects of exchange rate changes			<u>56,403</u>
Balance at March 31, 2020			<u>\$ 11,401,462</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.

24. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Group's defined benefit retirement plan were calculated using the actuarially determined pension cost discount rate as of December 31, 2019 and 2018.

	For the Three Months Ended March 31	
	2020	2019
Operating costs	\$ 243,940	\$ 245,872
Operating expenses	<u>106,466</u>	<u>106,723</u>
	<u>\$ 350,406</u>	<u>\$ 352,595</u>

25. EQUITY

a. Share capital

Ordinary shares

	March 31, 2020	December 31, 2019	March 31, 2019
Numbers of authorized shares (in thousands)	<u>7,000,000</u>	<u>7,000,000</u>	<u>6,000,000</u>
Amount of authorized shares	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 60,000,000</u>
Amount of issued shares	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>

b. Capital surplus

	March 31, 2020	December 31, 2019	March 31, 2019
Issuance of shares in excess of par value and conversion premium	\$ 315,114	\$ 315,114	\$ 315,114
Gain on sale of treasury shares held by subsidiaries	-	3,909	3,303
Retirement of treasury shares	33,513	33,513	33,513
Employee share options expired	11,747	11,747	11,747
Long-term investments	118,962	118,962	955
Bonds payable - equity component	409,978	409,978	409,978
Difference in sale price of shares of subsidiaries and book value	1,129,080	1,129,080	-
Others	<u>466,604</u>	<u>466,604</u>	<u>466,604</u>
	<u>\$ 2,484,998</u>	<u>\$ 2,488,907</u>	<u>\$ 1,241,214</u>

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

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

c. Appropriation of earnings and dividend policy

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

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

Under the dividend policy as set forth in the Company's Articles of Incorporation (the "Articles") based on the amended Company Act, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan with due consideration of any future aircraft acquisition plans and fund demands, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders by cash or shares (cash dividends cannot be less than 30% of total dividends distributed). However, if the Company's profit before tax in a fiscal year after deductions for the abovementioned items is not sufficient for earnings distribution, retained earnings can be used as a supplement for the deficiency.

The Company shall set aside profits as a legal reserve until the legal reserve amounts to the authorized capital. The legal reserve could be used for offsetting deficit of the Company. If the Company has no deficit in a fiscal year, the Company can distribute all or part of the capital surplus by cash or shares with due consideration of finance, marketing and management requirements in accordance with the laws and regulations.

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

1) Appropriation of earnings in 2018

The appropriation of earnings for 2018 was resolved in the board of directors meeting on June 25, 2019. The appropriation of earnings and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 114,493	
Cash dividends	1,136,278	\$0.20960737

Rotation Special reserve is \$105,843 thousand.

2) Offsetting deficits in 2019

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

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

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Gain (Loss) on Hedging Instruments	Total
Balance on January 1, 2019	\$ (9,664)	\$ 42,619	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	19,583	-	-	19,583
Cumulative loss on changes in fair value of hedging instruments	-	-	(107,629)	(107,629)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(16,132)	(16,132)
Unrealized gain on financial assets at fair value through other comprehensive income	-	16,906	-	16,906
Effects of income tax	<u>(3,224)</u>	<u>(3,424)</u>	<u>25,267</u>	<u>18,619</u>
Other comprehensive income (loss) recognized in the period	<u>16,359</u>	<u>13,482</u>	<u>(98,494)</u>	<u>(68,653)</u>
Dispose of subsidiary	<u>8,368</u>	<u>105</u>	<u>-</u>	<u>8,473</u>
Balance on March 31, 2019	<u>\$ 15,063</u>	<u>\$ 56,206</u>	<u>\$ (73,226)</u>	<u>\$ (1,957)</u>
Balance on January 1, 2020	\$ (54,707)	\$ 107,262	\$ 1,143,678	\$ 1,196,233
Exchange differences on translating foreign operations	(16,816)	-	-	(16,816)
Cumulative loss on changes in fair value of hedging instruments	-	-	(355,209)	(355,209)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(49,091)	(49,091)
Unrealized gain on financial assets at fair value through other comprehensive income	-	2,569	-	2,569
Effects of income tax	<u>3,130</u>	<u>(124)</u>	<u>81,694</u>	<u>84,700</u>
Other comprehensive income (loss) recognized in the period	<u>(13,686)</u>	<u>2,445</u>	<u>(322,606)</u>	<u>(333,847)</u>
Balance on March 31, 2020	<u>\$ (68,393)</u>	<u>\$ 109,707</u>	<u>\$ 821,072</u>	<u>\$ 862,386</u>

e. Non-controlling interests

	For the Three Months Ended March 31	
	2020	2019
Beginning balance	\$ 3,578,345	\$ 2,965,512
Net (loss) income attributable to non-controlling interests	(37,232)	96,828
Exchange differences on translating foreign operations	(1,247)	4,093
Gain (loss) on hedging instruments	1,471	46
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	<u>(205)</u>	<u>(30)</u>
	<u>19</u>	<u>4,109</u>
Dispose of subsidiaries	<u>-</u>	<u>(24,957)</u>
Ending balance	<u>\$ 3,541,132</u>	<u>\$ 3,041,492</u>

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of March 31, 2020 and 2019 and were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year	Number of Shares, End of Year
Three months ended March 31, 2020	<u>2,889</u>	<u>(814)</u>	<u>2,075</u>
Three months ended March 31, 2019	<u>2,889</u>	<u>-</u>	<u>2,889</u>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>March 31, 2020</u>			
Mandarin Airlines	2,075	<u>\$ 13,713</u>	<u>\$ 13,713</u>
<u>December 31, 2019</u>			
Mandarin Airlines	2,075	\$ 18,796	\$ 18,796
Dynasty Aerotech International Corp.	814	<u>7,376</u>	<u>7,376</u>
		<u>\$ 26,172</u>	<u>\$ 26,172</u>
<u>March 31, 2019</u>			
Mandarin Airlines	2,075	\$ 20,456	\$ 20,456
Dynasty Aerotech International Corp.	814	<u>8,028</u>	<u>8,028</u>
		<u>\$ 28,484</u>	<u>\$ 28,484</u>

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 March 31, 2020. The disposal price was \$6,854 thousand.

26. NET INCOME

a. Revenue

	For the Three Months Ended March 31	
	2020	2019
Passenger	\$ 18,728,022	\$ 27,250,147
Cargo	11,095,611	10,161,698
Others	<u>2,733,497</u>	<u>2,993,503</u>
	<u>\$ 32,557,130</u>	<u>\$ 40,405,348</u>

b. Other income

	For the Three Months Ended March 31	
	2020	2019
Interest income	\$ 88,300	\$ 96,955
Subsidy income	18,125	9,902
Others	<u>57,205</u>	<u>46,399</u>
	<u>\$ 163,630</u>	<u>\$ 153,256</u>

c. Other gains and losses

	For the Three Months Ended March 31	
	2020	2019
Gain (loss) on disposal of property, plant and equipment	\$ 5,121	\$ 1,349
Gain (loss) on disposal of non-current assets held for sale	-	(10,462)
Net gain (loss) on financial assets classified as held for sale	3,296	11,140
Gain (loss) on disposal of investments	-	7,656
Gain (loss) on foreign exchange, net	(79,114)	(26,900)
Others	<u>(83,393)</u>	<u>(49,224)</u>
	<u>\$ (154,090)</u>	<u>\$ (66,441)</u>

d. Finance costs

	For the Three Months Ended March 31	
	2020	2019
Interest expense		
Bonds payable	\$ 97,232	\$ 94,675
Bank loans	285,756	219,751
Interest on lease liabilities	<u>437,684</u>	<u>561,405</u>
	<u>\$ 820,672</u>	<u>\$ 875,831</u>
Capitalization interest	<u>\$ 27,649</u>	<u>\$ 1,071</u>
Capitalization rate	1.226%-1.453%	1.250%-1.316%

e. Depreciation and amortization expenses

	For the Three Months Ended March 31	
	2020	2019
Property, plant, equipment	\$ 4,906,909	\$ 5,299,843
Right of use assets	3,260,621	2,906,433
Investment properties	68	70
Intangible assets	<u>49,902</u>	<u>49,842</u>
Depreciation and amortization expenses	<u>\$ 8,217,500</u>	<u>\$ 8,256,188</u>
An analysis of depreciation by function		
Operating costs	\$ 7,749,835	\$ 7,751,905
Operating expenses	<u>417,763</u>	<u>454,441</u>
	<u>\$ 8,167,598</u>	<u>\$ 8,206,346</u>
An analysis of amortization by function		
Operating costs	\$ 3,538	\$ 3,166
Operating expenses	<u>46,364</u>	<u>46,676</u>
	<u>\$ 49,902</u>	<u>\$ 49,842</u>

f. Employment benefits expense

	For the Three Months Ended March 31	
	2020	2019
Post-employment benefits		
Defined contribution plan	\$ 155,859	\$ 140,839
Defined benefit plan	<u>350,406</u>	<u>352,595</u>
	<u>\$ 506,265</u>	<u>\$ 493,434</u>
Other employee benefits		
Salary expenses	\$ 5,382,169	\$ 5,273,602
Personnel service expenses	<u>1,787,364</u>	<u>1,719,330</u>
	<u>\$ 7,169,533</u>	<u>\$ 6,992,932</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 6,260,960	\$ 6,043,643
Operating expenses	<u>1,414,838</u>	<u>1,442,723</u>
	<u>\$ 7,675,798</u>	<u>\$ 7,486,366</u>

To be in compliance with the Company Act as amended, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the three months ended March 31, 2020 and 2019, the Company has experienced a deficit and, therefore, no employees' compensation was estimated.

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

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

27. INCOME TAX

a. Income tax expense recognized in profit or loss

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

	For the Three Months Ended March 31	
	2020	2019
Current tax		
Current year	\$ 23,296	\$ 148,035
Adjustments for prior periods	-	-
Deferred tax		
Current year	<u>(19,213)</u>	<u>41,202</u>
Income tax expense recognized in profit or loss	<u>\$ 4,083</u>	<u>\$ 189,237</u>

b. Income tax recognized in other comprehensive income

	For the Three Months Ended March 31	
	2020	2019
<u>Deferred tax</u>		
Recognized in other comprehensive income		
Translation of foreign operations	\$ 3,130	\$ (3,224)
Fair value changes of financial assets at FVTOCI	(124)	(3,424)
Hedging instruments' fair value revaluation	<u>81,694</u>	<u>25,267</u>
Total income tax recognized in other comprehensive income	<u>\$ 84,700</u>	<u>\$ 18,619</u>

c. Income tax assessment

Income tax returns for 2018 of the Company and its subsidiaries have been examined by the tax authorities.

28. EARNING (LOSSES) PER SHARE

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

	For the Three Months Ended March 31	
	2020	2019
Basic earnings (losses) per share	<u>\$ (0.70)</u>	<u>\$ (0.04)</u>
Diluted earnings (losses) per share	<u>\$ (0.70)</u>	<u>\$ (0.04)</u>
Earnings (losses) used in the computation of diluted earnings (losses) per share	<u>\$ (3,773,333)</u>	<u>\$ (243,704)</u>
<u>Thousand unit</u>		
Weighted average number of ordinary shares used in the computation of diluted earnings (losses) per share	<u>5,418,367</u>	<u>5,418,096</u>

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

29. DISPOSAL OF SUBSIDIARIES

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

a. Consideration received from disposals	
Consideration received in cash and cash equivalents	<u>\$ 34,036</u>
b. Analysis of assets and liabilities on the date control was lost	
Current assets	
Cash and cash equivalents	\$ 51,449
Other current assets	47,510
Non-current assets	17,035
Current liabilities	(49,742)
Non-current liabilities	<u>(15,318)</u>
Net assets disposed of	<u>\$ 50,934</u>
c. Gain on disposals of subsidiaries	
Consideration received	\$ 34,036
Net assets disposed of	(50,934)
Fair value of equity	10,187
Non-controlling interests	24,957
Reclassification of other comprehensive income in respect of subsidiaries	<u>(10,590)</u>
Gain on disposal	<u>\$ 7,656</u>
d. Net cash inflow on disposal of subsidiaries	
Consideration received in cash and cash equivalents	\$ 34,036
Less: Cash and cash equivalent balances disposed of	<u>(51,449)</u>
	<u>\$ (17,413)</u>

30. CAPITAL MANAGEMENT

The goal, policies and procedures as well as the composition of the Group's capital management are the same as those stated in Note 32 in the Group's consolidated financial statements for the year ended December 31, 2019.

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 the financial statements as approximating their fair values.

	March 31, 2020		December 31, 2019		March 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>						
Bonds payable	\$ 29,322,470	\$ 29,303,333	\$ 32,052,625	\$ 32,062,874	\$ 28,493,068	\$ 28,556,362
Loans and debt	76,279,471	76,279,471	67,663,783	67,663,783	67,844,690	67,844,690

Some long-term debts are floating-rate financial liabilities, so their carrying amounts are their fair values. As of March 31, 2020, December 31, 2019 and March 31, 2019, the fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.65%, 0.67% and 0.666%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

b. Fair value of financial instruments measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- 1) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

March 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 567,940	\$ -	\$ -	\$ 567,940
Foreign exchange agreement	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
	<u>\$ 567,940</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 567,970</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 28,816	\$ 28,816
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>182,109</u>	<u>182,109</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,925</u>	<u>\$ 210,925</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 5,075</u>	<u>\$ -</u>	<u>\$ 5,075</u>
Financial assets for hedging	<u>\$ -</u>	<u>\$ 11,853</u>	<u>\$ 620</u>	<u>\$ 12,473</u>
Financial liabilities for hedging	<u>\$ 49,151,436</u>	<u>\$ 14,560</u>	<u>\$ 75,877</u>	<u>\$ 49,241,873</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 511,758	\$ -	\$ -	\$ 511,758
Foreign exchange agreement	<u>-</u>	<u>434</u>	<u>-</u>	<u>434</u>
	<u>\$ 511,758</u>	<u>\$ 434</u>	<u>\$ -</u>	<u>\$ 512,192</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 26,865	\$ 26,865
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>182,356</u>	<u>182,356</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,221</u>	<u>\$ 209,221</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 11,749</u>	<u>\$ -</u>	<u>\$ 11,749</u>
Financial assets for hedging	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ 9,479</u>	<u>\$ 9,626</u>
Financial liabilities for hedging	<u>\$ 50,997,687</u>	<u>\$ 37,069</u>	<u>\$ 3,955</u>	<u>\$ 51,038,711</u>

March 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 238,600	\$ -	\$ -	\$ 238,600
Principal-protected notes Financial products	<u>-</u>	<u>7,216</u>	<u>-</u>	<u>7,216</u>
	<u>\$ 238,600</u>	<u>\$ 7,216</u>	<u>\$ -</u>	<u>\$ 245,816</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 21,527	\$ 21,527
Unlisted shares - foreign	<u>-</u>	<u>-</u>	<u>128,788</u>	<u>128,788</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,315</u>	<u>\$ 150,315</u>
Financial assets for hedging	<u>\$ -</u>	<u>\$ 26,566</u>	<u>\$ 7,905</u>	<u>\$ 34,471</u>
Financial liabilities for hedging	<u>\$ 40,581,085</u>	<u>\$ 22</u>	<u>\$ 983</u>	<u>\$ 40,582,090</u>

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

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

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

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

The fair values of fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of fuel options.

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

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

	Multiplier	Liquidity Discount
March 31, 2020	0.75-13.23	80%
December 31, 2019	0.75-13.23	80%
March 31, 2019	0.74-15.29	80%

The movements of Level 3 financial instruments are as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1, 2020	\$ 5,524	\$ 209,221
Recognized in other comprehensive income	<u>(80,781)</u>	<u>1,704</u>
Balance at March 31, 2020	<u>\$ (75,257)</u>	<u>\$ 210,925</u>
Balance at January 1, 2019	\$ 4,901	\$ 132,191
Recognized in other comprehensive income	<u>2,021</u>	<u>18,124</u>
Balance at March 31, 2019	<u>\$ 6,922</u>	<u>\$ 150,315</u>

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

c. Categories of financial instruments

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 567,970	\$ 512,192	\$ 245,816
Derivative financial assets for hedging	12,473	9,626	34,471
Financial assets at amortized cost (Note 1)	50,795,648	41,479,556	35,535,991
Financial assets at FVTOCI	210,925	209,221	150,315
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	5,075	11,749	-
Derivative financial liabilities for hedging	49,241,873	51,038,711	40,582,090
Financial liabilities at amortized cost (Note 2)	164,673,287	134,240,993	161,555,051

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

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, lease liabilities, provisions, parts of other current liabilities, parts of other 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 fuel prices, the Group has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by the Group shareholders to reduce the impact of market price changes on earnings. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

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

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax profit and increase in pre-tax other comprehensive income gain and losses for the three months ended March 31, 2020 of \$146,379 thousand and \$1,513,104 thousand and an increase in pre-tax profit and increase in pre-tax other comprehensive income gain and loss for the three months ended March 31, 2019 of \$845,448 thousand and \$1,264,031 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:

March 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	NTD417,205 USD13,809	2020.4.21- 2021.3.5	29.5-30.8	Financial assets for hedging/liabilities for hedging	\$ 664	\$ 3,680
Aviation fuel - forward exchange contracts	NTD/USD	NTD755,287/ USD25,000	2020.4.30- 2021.1.29	29.6-30.7	Financial assets for hedging - current/liabilities for hedging - current	2,482	3,769
Aircraft prepayments - forward exchange contracts	NTD/USD	NTD2,265,861/ USD75,000	2020.11.4- 2020.12.4	29.6-30.5	Financial assets for hedging - current/liabilities for hedging - current	8,707	7,111

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals, aviation fuel in U.S. dollars and Aircraft prepayment) are \$(3,016) thousand, \$(1,287) thousand and \$1,596 thousand, respectively.

December 31, 2019

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD509,507/ USD16,967	2020.1.21- 2020.12.24	29.5-30.8	Financial assets for hedging - current/ liabilities for hedging - current	\$ 38	\$ 8,491
Aviation fuel - forward exchange contracts	NTD/USD	NTD660,661/ USD22,000	2020.2.27- 2020.11.30	29.7-30.7	Financial assets for hedging - current/ liabilities for hedging - current	32	10,193
Aircraft prepayments - forward exchange contracts	NTD/USD	NTD1,411,411/ USD47,000	2020.11.4	29.6-30.5	Financial assets for hedging - current/ liabilities for hedging - current	77	18,385

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals, aviation fuel in U.S. dollars and Aircraft prepayment) are \$(8,453) thousand, \$(10,161) thousand and \$(18,308) thousand, respectively.

March 31, 2019

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

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (i.e. aircraft rentals denominated in U.S. dollars and aircraft prepayments) are \$26,544 thousand.

For the three months ended March 31, 2020

	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	\$ 5,437	\$ 882	(Note)
Aviation fuel	8,874	(271)	
Aircraft prepayments	<u>19,904</u>	<u>-</u>	
	<u>\$ 34,215</u>	<u>\$ 611</u>	

Note: Decrease in operating costs or foreign exchange loss.

For the three months ended March 31, 2019

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

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

	March 31, 2020	December 31, 2019	March 31, 2019
Fair value interest rate risk			
Financial liabilities	\$ 138,234,281	\$ 91,414,806	\$ 76,064,448
Cash flow interest rate risk			
Financial liabilities	51,906,914	77,821,887	95,126,103

Sensitivity analysis

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

Had interest rates increased one yard (25 basis) points and had all other variables been held constant, the Group's pretax profit for the three months ended March 31, 2020 would have decreased by \$32,442 thousand.

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

c) Other price risk

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

March 31, 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 75,257	2020.6.30-2020.12.31	USD49.65-78.50	Financial assets for hedging	\$ 620	\$ 75,877

Hedge accounting is continued to be applied to the abovementioned hedging instruments. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$(75,257) thousand.

December 31, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NTD5,524	2020.3.31-2020.12.31	USD49.65-80.75	Financial assets for hedging	\$ 9,479	\$ 3,955

Hedge accounting is continued to be applied to the abovementioned hedging instruments continue to be applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$5,524 thousand.

March 31, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NTD6,922	2019.4.30-2019.12.31	USD55.00-78.45	Financial assets for hedging	\$ 7,905	\$ 983

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

For the three months ended March 31, 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	\$ (80,781)	\$ (1,802) (Note)

Note: Increase in operating costs.

For the three months ended March 31, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedges - fuel options	\$ 2,021	\$ (927) (Note)

Note: Increase in operating costs.

Sensitivity analysis

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

	For the Three Months Ended March 31			
	2020		2019	
	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%	\$ -	\$ (104,677)	\$ -	\$ 656
Fuel price decrease 5%	-	(114,314)	-	-

2) Credit risk

The goal, policies and procedure of credit risk management are same as consolidated financial statement in 2019. Related illustration can be referred to in Note 33.

3) Liquidity risk

The goal, policies and procedures of liquidity risk management are same as consolidated financial statement in 2019. Related illustration can be referred in Note 33.

Liquidity and interest risk rate table

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

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

March 31, 2020

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	2.4225	\$ 3,351,176	\$ 11,052,170	\$ 7,150,457
Floating interest rate liabilities	1.1232	3,923,432	11,165,529	14,363,237
Fixed interest rate liabilities	1.1368	12,100,000	35,000,000	-
Derivative instruments	3.1133	10,070,758	38,679,892	5,173,331
Bonds payable	1.0709	<u>7,329,913</u>	<u>19,360,504</u>	<u>3,335,338</u>
		<u>\$ 36,775,279</u>	<u>\$ 115,258,095</u>	<u>\$ 30,022,363</u>

December 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	1.1613	\$ 3,357,996	\$ 10,622,204	\$ 8,949,194
Floating interest rate liabilities	1.9058	4,580,374	14,709,050	16,785,664
Fixed interest rate liabilities	1.2601	10,100,000	21,200,000	-
Derivative instruments	3.1131	10,060,822	39,729,062	6,373,333
Bonds payable	2.2573	<u>10,823,905</u>	<u>19,871,174</u>	<u>3,383,401</u>
		<u>\$ 38,923,097</u>	<u>\$ 106,131,490</u>	<u>\$ 35,491,592</u>

March 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	2.7075%	\$ 5,327,595	\$ 20,619,240	\$ 13,959,968
Floating interest rate liabilities	1.1894%	8,078,562	14,408,672	18,634,648
Fixed interest rate liabilities	1.1330%	-	25,800,000	-
Derivative instruments	3.1630%	6,038,467	34,543,623	-
Bonds payable	1.0700%	<u>2,827,846</u>	<u>25,561,468</u>	<u>1,010,700</u>
		<u>\$ 22,272,470</u>	<u>\$ 120,933,003</u>	<u>\$ 33,605,316</u>

32. RELATED-PARTY TRANSACTIONS

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

a. The related parties' names and relationships

<u>Name</u>	<u>Relationship with the Company</u>
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 (become associate in January 2019)
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
Nordam Asia Ltd.	Joint venture investment
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relative

b. Operating income

<u>Account Items</u>	<u>Related Party Type</u>	<u>For the Three Months Ended March 31</u>	
		<u>2020</u>	<u>2019</u>
Other income	Major shareholders of the Company	<u>\$ 5,097</u>	<u>\$ 5,125</u>
	Associates	<u>\$ 8</u>	<u>\$ 26</u>
	Joint venture investments	<u>\$ 10,415</u>	<u>\$ 10,645</u>

c. Purchases

Related Party Type	For the Three Months Ended March 31	
	2020	2019
Major shareholders of the Company	\$ 11,417	\$ 11,324
Associates	\$ 77,664	\$ 107,241
Joint venture investments	\$ 330,901	\$ 457,683

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

Related Party Type	March 31, 2020	December 31, 2019	March 31, 2019
Major shareholders of the Company	\$ 169	\$ 7,760	\$ 2,523
Joint venture investments	7,515	2,588	7,499
	<u>\$ 7,684</u>	<u>\$ 10,348</u>	<u>\$ 10,022</u>

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

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

Related Party Type	March 31, 2020	December 31, 2019	March 31, 2019
Major shareholders of the Company	\$ -	\$ 5,982	\$ 5,273
Associates	35,607	51,333	51,231
Joint venture investments	335,312	484,700	465,702
	<u>\$ 370,919</u>	<u>\$ 542,015</u>	<u>\$ 522,206</u>

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

f. Leases

The Company has signed a lease contract with the China Aviation Industry Development Foundation for pilot trainings. The Company has leased the flight trainer and simulator, and the rental was calculated based on use hours. As of March 31, 2020 and 2019, the rental paid was \$11,417 thousand and \$11,324 thousand, respectively.

g. Endorsements and assurances

	March 31, 2020		December 31, 2019		March 31, 2019	
	Total Amount	Amount Used	Total Amount	Amount Used	Total Amount	Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 2,046,400	\$ 3,850,000	\$ 2,129,400	\$ 3,850,000	\$ 2,256,700
Taiwan Air Cargo Terminal	-	-	1,080,000	-	1,080,000	-
Taigerair Taiwan Co., Ltd.	2,825,136	482,322	3,012,668	685,444	1,084,500	419,782
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	2,000,000	1,301,327	2,000,000	1,279,827	2,000,000	834,477

h. Compensation of key management personnel

	For the Three Months Ended March 31	
	2020	2019
Short-term employee benefits	\$ 9,481	\$ 13,619
Post-employment benefits	<u>637</u>	<u>875</u>
	<u>\$ 10,118</u>	<u>\$ 14,494</u>

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

33. PLEDGED ASSETS

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

	March 31, 2020	December 31, 2019	March 31, 2019
Property, plant and equipment	\$ 29,067,660	\$ 31,260,801	\$ 41,278,074
Right-of-use assets	68,591,872	71,033,617	75,696,713
Restricted assets	<u>157,148</u>	<u>130,052</u>	<u>119,366</u>
	<u>\$ 97,816,680</u>	<u>\$ 102,424,470</u>	<u>\$ 117,094,153</u>

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

34. COMMITMENTS AND CONTINGENT LIABILITIES

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

- a. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircraft, and the total list price of the six aircraft was \$120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, as of March 31, 2020, four of the aircraft has been handed over to the Company, and the total list price of the lefts two aircraft was \$40,000 thousand, which has been paid in the amount of US\$8,314 thousand (recognized as prepayments for aircraft).
- b. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

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

As of March 31, 2020, TACT had signed the following construction contracts with unrelated parties:

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

As of March 31, 2020, the cumulated consultant service expense and construction equipment had amounted to \$481,776 thousand (VAT included) and \$5,218,750 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$468,755 thousand (VAT included) and \$5,206,908 thousand (VAT included) were reclassified to property, plant and equipment. The remaining cumulative payments were recognized under construction in progress.

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

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

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

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

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

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

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

- d. 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 March 31, 2020, the list price has been paid in the amount of US\$17,014 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand.
- e. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three B777F aircraft and exercised the option to purchase three B777F aircraft. The total list price of the six aircraft is US\$2,320,315 thousand, and the expected delivery period is from 2020 to 2023. As of March 31, 2020, the list price has been paid in the amount of US\$241,650 thousand (recognized as prepayments for aircraft).
- f. 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 March 31, 2020, the list price has been paid in the amount of US\$9,324 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 March 31, 2020, the list price has been paid in the amount of US\$2,988 thousand (recognized as prepayments for aircraft).

35. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

The Company plans to complete the governmental \$20 billion relief loans application. Interest subsidy plan is provided by the government, with the advantage of full cargo fleet, and the flexible dispatch of passenger aircraft to carry goods in the belly freight, the Company expects to take advantage of global air cargo business opportunities. For the three months ended March 31, 2020, the cargo revenue was higher than the same period last year. As a result, the loss caused by the epidemic was abated.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

(Foreign Currencies in Thousands)			
<u>March 31, 2020</u>			
	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 584,082	30.2115	\$ 17,646,000
EUR	15,390	33.3333	512,983
HKD	194,538	3.9017	759,030
JPY	3,142,554	0.2787	875,837
CNY	498,926	4.2680	2,129,419
<u>Financial liabilities</u>			
Monetary items			
USD	2,366,374	30.2115	71,491,698
EUR	7,851	33.3333	261,686
HKD	73,117	3.9017	285,280
JPY	5,050,494	0.2787	1,407,579
CNY	151,076	4.2680	644,794
<u>December 31, 2019</u>			
	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 658,407	30.0300	\$ 19,771,957
EUR	18,401	33.6700	619,571
HKD	228,234	3.8595	880,868
JPY	6,262,272	0.2766	1,732,130
CNY	425,343	4.3048	1,831,012
<u>Financial liabilities</u>			
Monetary items			
USD	2,480,896	30.0300	74,501,305
EUR	7,638	33.6700	257,155
HKD	74,651	3.8595	288,117
JPY	6,584,434	0.2766	1,821,237
CNY	153,196	4.3048	659,478

March 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 416,293	30.8642	\$ 12,848,551
EUR	16,831	34.6021	582,381
HKD	184,193	3.9262	723,180
JPY	6,030,887	0.2782	1,677,845
CNY	332,627	4.5830	1,524,426
<u>Financial liabilities</u>			
Monetary items			
USD	2,584,568	30.8642	79,770,604
EUR	8,513	34.6021	294,564
HKD	86,847	3.9262	340,979
JPY	6,440,161	0.2782	1,791,687
CNY	159,591	4.5830	731,398

For the three months ended March 31, 2020 and 2019, net foreign exchange losses were \$79,114 thousand and \$26,900 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

37. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None
 - 2) Endorsements/guarantees provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 5) Acquisitions of individual real estate at costs or price of at least NT\$300 million or 20% of the paid-in capital: None
 - 6) Disposals of individual real estate at cost or prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)

- 9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 5 (attached)
- 10) Derivative financial transactions (Notes 7 and 31)
- b. Investments in mainland China: Table 6 (attached)
- c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 7 (attached)
- d. Information of major shareholders: Table 8 (attached)

38. SEGMENT INFORMATION

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

For the three months ended March 31, 2020 and 2019, financial information of segments is listed below:

	For the Three Months Ended March 31, 2020			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 31,322,443</u>	<u>\$ 2,133,654</u>	<u>\$ (898,967)</u>	<u>\$ 32,557,130</u>
Operation profit and loss	<u>\$ (2,890,908)</u>	<u>\$ (58,585)</u>	<u>\$ (21,363)</u>	\$ (2,970,856)
Interest revenue				88,300
Investment income accounted for using the equity method				(24,494)
Revenue				74,703
Financial costs				(820,672)
Expenses				<u>(153,463)</u>
Gain before income tax				<u>\$ (3,806,482)</u>
Identifiable assets	<u>\$ 203,751,681</u>	<u>\$ 15,794,670</u>	<u>\$ (6,347,490)</u>	\$ 213,198,861
Investments accounted for using the equity method				2,173,929
Assets				<u>79,863,403</u>
Total assets				<u>\$ 295,236,193</u>

For the Three Months Ended March 31, 2019

	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 39,635,656</u>	<u>\$ 2,640,801</u>	<u>\$ (1,871,109)</u>	<u>\$ 40,405,348</u>
Operation profit and loss	<u>\$ 493,631</u>	<u>\$ 299,182</u>	<u>\$ (31,340)</u>	\$ 761,473
Interest revenue				96,955
Investment income accounted for using the equity method				69,904
Revenue				55,366
Financial costs				(875,831)
Expenses				<u>(65,506)</u>
Gain before income tax				<u>\$ 42,361</u>
Identifiable assets	<u>\$ 228,087,064</u>	<u>\$ 16,336,225</u>	<u>\$ (6,545,994)</u>	\$ 237,877,295
Investments accounted for using the equity method				2,297,133
Assets				<u>55,445,270</u>
Total assets				<u>\$ 295,619,698</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(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 77.17% subsidiary by direct and indirect holdings	\$ 10,490,689 10,490,689	\$ 3,850,000 3,038,197	\$ 3,850,000 2,825,136	\$ 2,046,400 482,322	\$ - -	7.34 5.79	\$ 26,226,723 26,226,723	Yes Yes	No No	No No
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	10,490,689	2,000,000	2,000,000	1,301,327	-	3.81	26,226,723	Yes	No	No

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

MARCH 31, 2020

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

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2020				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	\$ 74,190	13.59	\$ 81,609	Note 1
	Everest Investment Holdings Ltd. - preferred shares	-	Financial assets at fair value through other comprehensive income - non-current	135,937	7,419	-	-	
	Chung Hua Express Co.	-	Financial assets at fair value through other comprehensive income - non-current	1,100,000	28,816	11.00	28,816	
	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	13,713	-	13,713	-
Cal-Asia Investment	<u>Shares</u> Taikoo (Xiamen) Landing Gear Services	-	Financial assets at fair value through profit or loss - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at fair value through other comprehensive income - non-current	-	100,500	5.45	100,500	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficial certificates</u> Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	9,451,969	98,238	-	98,238	-
	FSITC Money Market Fund	-	Financial assets at FVTPL - current	486,501	87,243	-	87,243	-
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	5,464,065	88,617	-	88,617	-
	Capital Money Market Fund	-	Financial assets at FVTPL - current	6,444,010	81,171	-	81,171	-
Taiwan Airport Services	<u>Shares</u> TransAsia Airways	-	Financial assets at fair value through profit or loss - current	2,277,786	-	0.40	-	-
	<u>Beneficial certificates</u> Fuh Hwa Global Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	1,671,657	19,102	-	19,102	-
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	1,233,211	17,470	-	17,470	-
Dynasty Aerotech International Corp.	<u>Beneficial certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,755	-	4,755	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	March 31, 2020				Note
				Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Kaohsiung Catering Services	<u>Beneficial certificates</u>							
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	5,407,832	\$ 85,887	-	\$ 85,887	-
	Prudential Financial Return Fund	-	Financial assets at FVTPL - current	4,493,628	70,422	-	70,422	-
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	1,106,807	15,035	-	15,035	
Tigerair Taiwan Co., Ltd.	<u>Government bond</u>							
	Philippines government bond	-	Amortized cost financial assets	-	301	Not applicable	301	

Note 1: The subsidiary's net asset value was \$81,609 thousand, which included ordinary shares and preference shares as of and for the year ended March 31, 2020.

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE THREE MONTHS ENDED MARCH 31, 2020

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 129,671	0.45	30 days	\$ -	-	\$ (46,472)	(1.73)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	261,152	0.90	40 days	-	-	(210,154)	(7.81)	-
	China Pacific Catering Services	Equity-method investee	Purchase	305,601	1.06	90 days	-	-	(320,422)	(11.91)	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

MARCH 31, 2020

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Pacific Catering Services	China Airlines	Parent company	\$ 320,422	3.11	-	-	\$ 163,430	-
Taoyuan International Airport Service	China Airlines	Parent company	210,154	3.75	-	-	142,849	-

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(In Thousands of New Taiwan Dollars/U.S. Dollars/Hong Kong Dollars/Japanese Yen)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2020			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				March 31, 2020	December 31, 2019	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	\$ 1,571,897	\$ 8,283	\$ 19,587	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,368,500	(134,560)	(126,473)	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	1,551,085	61,338	33,139	-
	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	1,290,760	6,120	6,501	Notes 2 and 4
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	799,660	(2,766)	(1,411)	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	713,121	(49,233)	(24,124)	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	508,759	4,654	4,654	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	449,235	(11,687)	(10,977)	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	412,463	(148,499)	(29,700)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	263,095	(25,126)	(11,897)	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	664,116	11,843	2,946	Note 5
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	453,886	(25,440)	(25,374)	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	167,097	(2,635)	(1,449)	-
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	99,895	4,728	4,728	Note 4
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	21,413	(3,880)	(3,855)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	9,573	(2,879)	(576)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,568	1,095	274	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,272,063	1,272,063	138,906,275	69.45	1,892,660	(82,703)	(57,444)	Note 4
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	847,641	(74,355)	(74,348)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Composite repair and manufacturing business	37,975	2,450	3,797,500	49.00	37,812	(3)	(1)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	200,000	15,433,000	7.72	210,281	(82,703)	(6,382)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	5,984	(25,126)	(271)	-
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	43,069	2,072	725	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	348,402	3,868	3,868	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,868	-	-	-

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

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

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

Note 4: Difference caused by lease arrangement between consolidated entities.

Note 5: Difference cause by acquisition.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(In Thousands of New Taiwan Dollars/Renminbi/U.S. Dollars)

China Airlines

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of March 31, 2020	Accumulated Inward Remittance of Earnings as of March 31, 2020
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,086,129 (RMB 254,480)	Indirect (Note 1)	\$ 126,465 (US\$ 4,186)	\$ -	\$ -	\$ 126,465 (US\$ 4,186)	\$ 11,112 (RMB 2,567)	14.00	\$ 1,419 (RMB 359)	\$ 223,268 (RMB 52,312)	\$ 106,845 (US\$ 3,537) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	59,752 (RMB 14,000)	Indirect (Note 1)	58,835 (US\$ 1,947)	-	-	58,835 (US\$ 1,947)	18,124 (RMB 4,187)	14.00	2,406 (RMB 586)	125,513 (RMB 29,408)	47,146 (US\$ 1,561) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,510,272 (US\$ 83,090)	Indirect (Note 1)	64,991 (US\$ 2,151)	-	-	64,991 (US\$ 2,151)	-	2.589	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	352,356 (US\$ 11,663)	Indirect (Note 1)	19,215 (US\$ 636)	-	-	19,214 (US\$ 636)	-	5.45	-	100,500 (RMB 23,547)	\$ 10,771 (US\$ 357)

Accumulated Investment in Mainland China as of March 31, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$269,505 (US\$8,920)	\$653,635 (Note 3)	\$33,596,747 (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, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of March 31, 2020	Accumulated Repatriation of Investment Income as of March 31, 2020
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,086,129 (RMB 254,480)	Indirect (Note 5)	\$ 121,400 (US\$ 4,018)	\$ -	\$ -	\$ 121,400 (US\$ 4,018)	\$ 11,112 (RMB 2,567)	14.00	\$ 1,556 (RMB 359)	\$ 222,020 (RMB 52,019)	\$ 137,195 (US\$ 4,541)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	59,752 (RMB 14,000)	Indirect (Note 5)	58,210 (US\$ 1,927)	-	-	58,210 (US\$ 1,927)	18,124 (RMB 4,187)	14.00	2,537 (RMB 586)	125,591 (RMB 29,426)	63,197 (US\$ 2,092)

Accumulated Outward Remittance for Investment in Mainland China as of March 31, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$179,610 (US\$5,945)	\$179,610 (US\$5,945)	\$333,383 (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 March 31, 2020, the inward remittance of earnings amounted to US\$2,801,749 and US\$875,330.

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

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

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(In Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Taoyuan International Airport Service	a	Terminal and landing fees	\$ 261,152	The same as ordinary transactions	0.08
		Taiwan Air Cargo Terminal	a	Other operating costs	129,671	The same as ordinary transactions	0.40
		Taoyuan International Airport Service	a	Accounts payable - related parties	210,154	The same as ordinary transactions	0.07
		Mandarin Airlines	a	Bonds payable - non-current	250,000	The same as ordinary transactions	0.08
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	129,671	The same as ordinary transactions	0.40
2	Mandarin Airlines	Taiwan Airport Services	c	Terminal and landing fees	189,853	The same as ordinary transactions	0.58
		China Airlines, Ltd.	b	Financial assets at amortized cost	250,000	The same as ordinary transactions	0.08
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	261,152	The same as ordinary transactions	0.08
		China Airlines, Ltd.	b	Accounts receivable - related parties	210,154	The same as ordinary transactions	0.07
		Tigerair Taiwan Ltd.	c	Airport service revenue	197,179	The same as ordinary transactions	0.61
4	Taiwan Airport Services	Mandarin Airlines	c	Operating revenue	189,853	The same as ordinary transactions	0.58
5	CAL Park	Cal Hotel Co., Ltd.	c	Operating revenue	114,281	The same as ordinary transactions	0.35
6	Cal Hotel Co., Ltd.	CAL Park	c	Operating revenue	114,281	The same as ordinary transactions	0.35
7	Tigerair Taiwan Ltd.	Taoyuan International Airport Service	c	Terminal and landing fees	197,179	The same as ordinary transactions	0.61

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

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

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

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

TABLE 8**CHINA AIRLINES, LTD. AND SUBSIDIARIES****INFORMATION OF MAJOR STOCKHOLDERS
FOR THE THREE MONTHS ENDED MARCH 31, 2020**

Name of Major Stockholder	Shares	
	Number of Shares	Percentage of Ownership (%)
China Aviation Development Foundation (CADF)	1,867,341,935	34.44
National Development Fund (NDF)	519,750,519	9.59

Note 1: The table presents information provided by the Taiwan Depository & Clearing Corporation on stockholders holding greater than 5% of the Company's common 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 stockholders transferred shares for trust, the accounts are disclosed separately by the principal who opened a trust account for the subcontractor. Insiders' shares of stockholders who held more than 10% of shares based on the laws and regulations of securities transaction include those held by the stockholders plus the shares for trust while the stockholders have controlling interest over trusted property. For the stockholder's rights in filing information of insiders, please refer to the Market Observation Post System website.