

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.

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.

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)

