

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

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 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 September 30, 2020 and 2019, the related consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the nine month then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

We did not review the financial statements of some subsidiaries included in the consolidated financial statements of the Group, but such statements were reviewed by other auditors. Our conclusion, insofar as it relates to the amounts included in the consolidated financial statements for these subsidiaries, is based solely on the report of other auditors. The total assets of these subsidiaries were NT\$11,025,331 thousand and NT\$13,644,652 thousand, which constituted 3.88% and 4.57% of the consolidated total assets as of September 30, 2020 and 2019, and the total revenue was NT\$175,653 thousand, NT\$2,501,275 thousand, NT\$1,813,945 thousand and NT\$7,406,331 thousand, which constituted 0.66%, 5.82%, 2.12% and 5.86% of the consolidated total revenues for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 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 13 and 14 to the consolidated financial statements, the financial statements of some non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph and some investments accounted for using the equity method were not reviewed. As of September 30, 2020 and 2019, the combined total assets of these non-significant subsidiaries were NT\$21,447,628 thousand and NT\$22,460,780 thousand, respectively, representing 7.55% and 7.53%, respectively, of the consolidated total assets, and combined total liabilities of these non-significant

subsidiaries were NT\$11,453,273 thousand and NT\$11,665,344 thousand, respectively, representing 5.07% and 4.89%, respectively, of the consolidated total liabilities; for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the amounts of the combined comprehensive income of these non-significant subsidiaries were NT\$(126,107) thousand, NT\$297,334 thousand, NT\$(481,583) thousand and NT\$855,151 thousand, respectively, representing 37.52%, 59.93%, 28.41% and (412.73%), respectively, of the consolidated total comprehensive income. As of September 30, 2020 and 2019, the aforementioned investments accounted for using the equity method were NT\$2,009,318 thousand and NT\$2,186,140 thousand, respectively; and for the three months ended and for the nine months ended September 30, 2020 and 2019, the amounts of the Group's share of the profit of such investments accounted for using the equity method were NT\$(57,013) thousand, NT\$77,114 thousand, NT\$(176,235) thousand and NT\$234,913 thousand, respectively.

### **Qualified Conclusion**

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and investments accounted for by using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2020 and 2019, its consolidated financial performance for the three months ended September 30, 2020 and 2019 and for the nine-month periods ended September 30, 2020 and 2019, and its consolidated cash flows for the nine months 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

November 5, 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	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Notes 4, 6 and 32)	\$ 26,638,850	10	\$ 28,459,528	10	\$ 28,831,065	10
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 32)	491,271	-	512,192	-	374,123	-
Financial assets at amortized cost - current (Notes 4, 9 and 32)	5,458,047	2	2,355,095	1	1,079,048	-
Financial assets for hedging - current (Notes 4, 6 and 32)	9,505,860	3	9,626	-	12,360	-
Notes and accounts receivable, net (Notes 4, 5, 10 and 32)	8,418,269	3	8,520,834	3	9,255,225	3
Notes and accounts receivable - related parties (Notes 32 and 33)	1,537	-	10,348	-	10,569	-
Other receivables (Note 32)	640,205	-	774,206	-	1,366,847	-
Current tax assets (Notes 4 and 28)	66,991	-	54,689	-	59,664	-
Inventories, net (Notes 4 and 11)	8,048,111	3	8,470,113	3	8,762,322	3
Non-current assets held for sale (Notes 4, 5 and 12)	79,143	-	-	-	-	-
Other assets - current (Note 18)	1,864,090	1	2,655,711	1	1,738,484	1
Total current assets	61,212,374	22	51,822,342	18	51,489,707	17
<b>NON-CURRENT ASSETS</b>						
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 32)	122,512	-	209,221	-	126,069	-
Financial assets at amortized cost - non-current (Notes 4, 9 and 32)	388,270	-	105,586	-	-	-
Investments accounted for using the equity method (Notes 4 and 14)	2,009,318	1	2,223,793	1	2,186,140	1
Property, plant and equipment (Notes 4, 5, 15 and 34)	134,897,356	47	145,886,971	50	149,644,024	50
Right-of-use assets (Notes 4, 21 and 34)	62,866,981	22	71,033,617	24	74,143,766	25
Investment properties (Notes 4 and 16)	2,074,864	1	2,075,068	1	2,075,135	1
Other intangible assets (Notes 4 and 17)	1,088,194	-	1,182,692	-	1,211,693	-
Deferred income tax asset (Notes 4, 5 and 28)	5,678,175	2	5,337,626	2	5,211,294	2
Other assets - non-current (Notes 18, 21, 32, 33 and 34)	13,686,945	5	13,171,063	4	12,346,491	4
Total non-current assets	222,812,615	78	241,225,637	82	246,944,612	83
<b>TOTAL</b>	<b>\$ 284,024,989</b>	<b>100</b>	<b>\$ 293,047,979</b>	<b>100</b>	<b>\$ 298,434,319</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term loans (Notes 19 and 32)	\$ 1,932,000	1	\$ 380,000	-	\$ -	-
Short-term bills payable (Note 19)	8,468,278	3	-	-	10,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 32)	-	-	11,749	-	2,115	-
Financial liabilities for hedging - current (Notes 4, 21 and 32)	8,516,507	3	8,618,506	3	8,883,631	3
Notes and accounts payable (Note 32)	2,072,167	1	1,495,606	1	1,675,597	1
Notes and accounts payable - related parties (Notes 32 and 33)	109,953	-	542,015	-	550,376	-
Other payables (Notes 22 and 32)	8,480,982	3	13,187,972	5	13,257,560	4
Current tax liabilities (Notes 4 and 28)	178,279	-	374,178	-	336,971	-
Lease liabilities - current (Notes 4 and 21)	2,499,005	1	2,340,873	1	2,486,709	1
Contract liabilities - current (Notes 4, 5 and 23)	4,394,318	1	21,060,773	7	20,836,928	7
Provisions - current (Notes 4, 24 and 32)	221,320	-	360,393	-	53,326	-
Bonds payable and put options of convertible bonds - current portion (Notes 4, 20 and 32)	11,562,586	4	10,000,000	3	9,100,000	3
Loans and debts - current portion (Notes 19, 32 and 34)	16,468,455	6	14,148,892	5	9,775,624	3
Other current liabilities (Note 32)	1,197,423	-	3,830,570	1	4,595,396	2
Total current liabilities	66,101,273	23	76,351,527	26	71,564,233	24
<b>NON-CURRENT LIABILITIES</b>						
Derivative financial liabilities for hedging - non-current (Notes 4, 21 and 32)	35,774,370	13	42,420,205	15	46,107,551	15
Bonds payable - non-current (Notes 4, 20 and 32)	11,600,000	4	22,052,625	8	22,932,632	8
Loans and debts - non-current (Notes 19, 32 and 34)	72,681,739	26	53,514,891	18	59,560,240	20
Contract liabilities - non-current (Notes 4 and 23)	1,998,350	1	2,236,311	1	2,155,198	1
Provisions - non-current (Notes 4, 24 and 32)	13,565,971	5	10,011,464	3	10,061,365	3
Deferred tax liabilities (Notes 4 and 28)	823,805	-	557,142	-	204,421	-
Lease liabilities - non-current (Notes 4 and 21)	13,530,522	5	15,801,724	5	16,620,938	6
Accrued pension costs (Notes 4, 5 and 25)	9,308,126	3	9,435,035	3	8,665,398	3
Other non-current liabilities (Note 32)	572,000	-	534,938	-	487,138	-
Total non-current liabilities	159,854,883	57	156,564,335	53	166,794,881	56
Total liabilities	225,956,156	80	232,915,862	79	238,359,114	80
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)</b>						
Share capital	54,209,846	19	54,209,846	19	54,209,846	18
Capital surplus	1,187,327	-	2,488,907	1	2,448,220	1
Retained earnings (accumulated deficits)	-	-	-	-	-	-
Legal reserve	-	-	466,416	-	466,416	-
Special reserve	-	-	12,967	-	12,967	-
Unappropriated retained earnings (accumulated deficits)	(2,023,555)	(1)	(1,777,225)	-	(346,425)	-
Total retained earnings	(2,023,555)	(1)	(1,297,842)	-	132,958	-
Other equity	1,876,805	1	1,196,233	-	(193,441)	-
Treasury shares	(30,875)	-	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	55,219,548	19	56,553,772	20	56,554,211	19
<b>NON-CONTROLLING INTERESTS (Note 26)</b>	<b>2,849,285</b>	<b>1</b>	<b>3,578,345</b>	<b>1</b>	<b>3,520,994</b>	<b>1</b>
Total equity	58,068,833	20	60,132,117	21	60,075,205	20
<b>TOTAL</b>	<b>\$ 284,024,989</b>	<b>100</b>	<b>\$ 293,047,979</b>	<b>100</b>	<b>\$ 298,434,319</b>	<b>100</b>

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

(With Deloitte & Touche auditors' review report dated November 5, 2020)

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUE (Notes 4, 27 and 34)	\$ 26,611,698	100	\$ 43,004,648	100	\$ 85,484,350	100	\$ 126,302,308	100
COSTS (Notes 4, 11, 17, 21, 24, 25, 27, 34 and 36)	<u>25,408,645</u>	<u>95</u>	<u>37,878,124</u>	<u>88</u>	<u>79,395,609</u>	<u>93</u>	<u>112,665,810</u>	<u>89</u>
GROSS PROFIT	1,203,053	5	5,126,524	12	6,088,741	7	13,636,498	11
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>1,560,622</u>	<u>6</u>	<u>3,664,622</u>	<u>9</u>	<u>6,669,400</u>	<u>8</u>	<u>10,840,603</u>	<u>9</u>
OPERATING (LOSS) PROFIT	<u>(357,569)</u>	<u>(1)</u>	<u>1,461,902</u>	<u>3</u>	<u>(580,659)</u>	<u>(1)</u>	<u>2,795,895</u>	<u>2</u>
NON-OPERATING EXPENSES								
Other income (Note 27)	182,503	1	190,245	1	545,707	1	516,124	-
Other gains and losses (Notes 12, 15 and 27)	89,695	-	(254,192)	(1)	19,407	-	(491,067)	-
Finance costs (Notes 27 and 33)	(750,676)	(3)	(803,383)	(2)	(2,367,841)	(3)	(2,523,631)	(2)
Share of the profit (loss) of associates and joint ventures (Note 14)	<u>(57,013)</u>	<u>-</u>	<u>77,114</u>	<u>-</u>	<u>(176,235)</u>	<u>-</u>	<u>234,913</u>	<u>-</u>
Total non-operating income and expenses	<u>(535,491)</u>	<u>(2)</u>	<u>(790,216)</u>	<u>(2)</u>	<u>(1,978,962)</u>	<u>(2)</u>	<u>(2,263,661)</u>	<u>(2)</u>
(LOSS) PROFIT BEFORE INCOME TAX	(893,060)	(3)	671,686	1	(2,559,621)	(3)	532,234	-
INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 28)	<u>(75,767)</u>	<u>-</u>	<u>176,171</u>	<u>-</u>	<u>(184,376)</u>	<u>-</u>	<u>474,485</u>	<u>-</u>
NET (LOSS) INCOME FOR THE PERIOD	<u>(817,293)</u>	<u>(3)</u>	<u>495,515</u>	<u>1</u>	<u>(2,375,245)</u>	<u>(3)</u>	<u>57,749</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified subsequently to profit or loss :								
Gain (loss) on hedging instruments subject to basis adjustment	(213,217)	(1)	603	-	(224,034)	-	603	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(11,473)	-	(2,939)	-	(85,280)	-	(5,004)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	<u>44,939</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>60,960</u>	<u>-</u>	<u>876</u>	<u>-</u>
	<u>(179,751)</u>	<u>(1)</u>	<u>(2,311)</u>	<u>-</u>	<u>(248,354)</u>	<u>-</u>	<u>(3,525)</u>	<u>-</u>

(Continued)

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations (Notes 4 and 26)	\$ (13,055)	-	\$ (32,457)	-	\$ (70,055)	-	\$ (6,411)	-
Gain (loss) on hedging instruments not subject to basis adjustment (Notes 4, 21, 26 and 33)	838,066	3	39,897	-	1,231,041	1	(318,338)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	(164,068)	-	(4,510)	-	(232,713)	-	63,332	-
	<u>660,943</u>	<u>3</u>	<u>2,930</u>	<u>-</u>	<u>928,273</u>	<u>1</u>	<u>(261,417)</u>	<u>-</u>
Other comprehensive income (loss) for the period, net of income tax	<u>481,192</u>	<u>2</u>	<u>619</u>	<u>-</u>	<u>679,919</u>	<u>1</u>	<u>(264,942)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ (336,101)</u>	<u>(1)</u>	<u>\$ 496,134</u>	<u>1</u>	<u>\$ (1,695,326)</u>	<u>(2)</u>	<u>\$ (207,193)</u>	<u>-</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	\$ (707,937)	(3)	\$ 340,038	1	\$ (2,021,822)	(2)	\$ (346,425)	-
Non-controlling interests	<u>(109,356)</u>	<u>-</u>	<u>155,477</u>	<u>-</u>	<u>(353,423)</u>	<u>(1)</u>	<u>404,174</u>	<u>-</u>
	<u>\$ (817,293)</u>	<u>(3)</u>	<u>\$ 495,515</u>	<u>1</u>	<u>\$ (2,375,245)</u>	<u>(3)</u>	<u>\$ 57,749</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	\$ (229,105)	(1)	\$ 347,814	1	\$ (1,341,250)	(2)	\$ (605,959)	-
Non-controlling interests	<u>(106,996)</u>	<u>-</u>	<u>148,320</u>	<u>-</u>	<u>(354,076)</u>	<u>-</u>	<u>398,766</u>	<u>-</u>
	<u>\$ (336,101)</u>	<u>(1)</u>	<u>\$ 496,134</u>	<u>1</u>	<u>\$ (1,695,326)</u>	<u>(2)</u>	<u>\$ (207,193)</u>	<u>-</u>
EARNINGS (LOSS) PER SHARE (NEW TAIWAN DOLLARS; Note 29)								
Basic	<u>\$ (0.13)</u>		<u>\$ 0.06</u>		<u>\$ (0.37)</u>		<u>\$ (0.06)</u>	
Diluted	<u>\$ (0.13)</u>		<u>\$ 0.06</u>		<u>\$ (0.37)</u>		<u>\$ (0.06)</u>	

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

(With Deloitte & Touche auditors' review report dated November 5, 2020)

(Concluded)

**CHINA AIRLINES, LTD. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Company											
	Retained Earnings				Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve			Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Gain (Loss) on Hedging Instruments				
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
Basis adjustment to gain on hedging instruments	-	-	-	-	-	-	-	(603)	-	(603)	-	(603)
Appropriation of 2018 earnings												
Legal reserve	-	-	114,493	-	(114,493)	-	-	-	-	-	-	-
Special reserve	-	-	-	(105,843)	105,843	-	-	-	-	-	-	-
Cash dividends - \$0.20960737	-	-	-	-	(1,136,278)	-	-	-	-	(1,136,278)	-	(1,136,278)
Actual disposal of interests in subsidiaries	-	1,207,006	-	-	-	-	-	-	-	1,207,006	7,302	1,214,308
Net profit (loss) for the nine months ended September 30, 2019	-	-	-	-	(346,425)	-	-	-	-	(346,425)	404,174	57,749
Other comprehensive income for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	(2,616)	(4,128)	(252,790)	-	(259,534)	(5,408)	(264,942)
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	(346,425)	(2,616)	(4,128)	(252,790)	-	(605,959)	398,766	(207,193)
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(416,438)	(416,438)
Non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	590,809	590,809
Loss of control of subsidiaries	-	-	-	-	-	8,368	105	-	-	8,473	(24,957)	(16,484)
BALANCE AT SEPTEMBER 30, 2019	\$ 54,209,846	\$ 2,448,220	\$ 466,416	\$ 12,967	\$ (346,425)	\$ (3,912)	\$ 38,596	\$ (228,125)	\$ (43,372)	\$ 56,554,211	\$ 3,520,994	\$ 60,075,205
BALANCE AT JANUARY 1, 2020	\$ 54,209,846	\$ 2,488,907	\$ 466,416	\$ 12,967	\$ (1,777,225)	\$ (54,707)	\$ 107,262	\$ 1,143,678	\$ (43,372)	\$ 56,553,772	\$ 3,578,345	\$ 60,132,117
Issuance of employee share options by subsidiaries	-	172	-	-	-	-	-	-	-	172	52	224
Appropriation of 2019 earnings												
Legal reserve	-	-	(466,416)	-	466,416	-	-	-	-	-	-	-
Special reserve	-	-	-	(12,967)	12,967	-	-	-	-	-	-	-
Capital surplus used to cover accumulated deficit	-	(1,297,843)	-	-	1,297,843	-	-	-	-	-	-	-
Net loss for the nine months ended September 30, 2020	-	-	-	-	(2,021,822)	-	-	-	-	(2,021,822)	(353,423)	(2,375,245)
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	(55,231)	(69,127)	804,930	-	680,572	(653)	679,919
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	-	(2,021,822)	(55,231)	(69,127)	804,930	-	(1,341,250)	(354,076)	(1,695,326)
Disposal of treasury shares	-	(3,909)	-	-	(1,734)	-	-	-	12,497	6,854	-	6,854
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(375,036)	(375,036)
BALANCE AT SEPTEMBER 30, 2020	\$ 54,209,846	\$ 1,187,327	\$ -	\$ -	\$ (2,023,555)	\$ (109,938)	\$ 38,135	\$ 1,948,608	\$ (30,875)	\$ 55,219,548	\$ 2,849,285	\$ 58,068,833

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

(With Deloitte & Touche auditors' review report dated November 5, 2020)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss) income before income tax	\$ (2,559,621)	\$ 532,234
Adjustments for:		
Depreciation expenses	23,898,705	24,582,494
Amortization expenses	152,758	149,150
Expected credit loss recognized on trade receivables	5,791	20,434
Net gain on fair value changes of financial assets and liabilities held for trading	(2,234)	(43,641)
Interest income	(242,761)	(287,238)
Dividend income	(22,516)	(18,009)
Share of loss (profit) of associates and joint ventures	176,235	(234,913)
Gain on disposal of property, plant and equipment	(13,466)	(25,280)
Loss on disposal of non-current assets held for sale	-	10,462
Gain on disposal of investments	-	(7,656)
Loss on disposal of inventory and property, plant and equipment	388,460	502,317
Compensation costs of employee share options	224	-
Finance costs	2,367,841	2,523,631
Net (gain) loss on foreign currency exchange	(621,249)	516,116
Loss on sale-leasebacks	-	103,775
Recognition of provisions	4,730,275	3,293,355
Others	3,533	(2,063)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	23,905	(124,447)
Financial liabilities classified as at fair value through profit or loss	(11,749)	1,894
Notes and accounts receivable	(140,637)	701,910
Accounts receivable - related parties	867,396	(140,527)
Other receivables	110,725	(127,624)
Inventories	663,251	(294,431)
Other current assets	1,528,637	1,878,230
Notes and accounts payable	61,595	173,523
Accounts payable - related parties	(1,073,199)	150,336
Other payables	(4,520,964)	(822,899)
Contract liabilities	(16,904,416)	1,543,090
Provisions	(962,948)	(2,051,888)
Other current liabilities	(2,628,167)	649,837
Accrued pension liabilities	(126,909)	(137,886)
Other liabilities	(33,033)	1,102
Cash generated from operations	5,115,462	33,015,388
Interest received	232,156	272,090
Dividends received	63,817	260,714

(Continued)



# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
Interest paid	\$ (2,477,852)	\$ (2,483,505)
Income tax paid	<u>(191,653)</u>	<u>(356,524)</u>
Net cash generated from operating activities	<u>2,741,930</u>	<u>30,708,163</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at amortized cost	(5,398,640)	(1,389,615)
Disposal of financial assets amortized cost	1,694,234	3,718,702
Payments to acquire financial assets for hedging	(9,667,026)	-
Proceeds from disposal of noncurrent assets held for sale	-	35,692
Payments for property, plant and equipment	(858,411)	(4,075,360)
Proceeds from disposal of property, plant and equipment	39,076	66,784
Increase in refundable deposits	(63,471)	(347,289)
Decrease in refundable deposits	100,018	141,930
Increase in prepayments for equipment	(3,983,167)	(12,864,504)
Increase in computer software costs	(57,715)	(152,548)
(Increase) decrease in restricted assets	(52,410)	453
Proceeds from disposal of associates accounted for using the equity method	-	1,505,664
Net cash outflow on disposal of subsidiaries (Note 31)	<u>-</u>	<u>(17,413)</u>
Net cash used in investing activities	<u>(18,247,512)</u>	<u>(13,377,504)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term debts	1,552,000	-
Increase in short-term bill payable	8,068,279	10,000
Proceeds from issuance of bonds payable	-	3,500,000
Repayments of bonds payable	(8,950,000)	(4,445,900)
Proceeds of long-term debts	65,830,527	7,532,213
Repayments of long-term debts	(43,944,169)	(14,629,858)
Repayments of the principal portion of lease liabilities	(8,153,315)	(8,624,846)
Proceeds of guarantee deposits received	92,983	122,618
Refunds of guarantee deposits received	(137,738)	(104,852)
Proceeds from sale-leasebacks	-	4,905,660
Dividends paid to owners of the Company	-	(1,136,278)
Cash dividends paid to non-controlling interests	(375,036)	(416,438)
Proceeds from disposal of treasury shares	<u>6,854</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>13,990,385</u>	<u>(13,287,681)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(305,481)</u>	<u>(149,450)</u>

(Continued)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

---

	For the Nine Months Ended September 30	
	2020	2019
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (1,820,678)	\$ 3,893,528
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>\$ 26,638,850</u>	<u>\$ 28,831,065</u>

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

(With Deloitte & Touche auditors' review report dated November 5, 2020)

(Concluded)

# CHINA AIRLINES, LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 and aviation equipment; and (f) the sale and leasing of aircraft.

The major shareholders of the Company are the China Aviation Development Foundation (“CADF”) and the National Development Fund (“NDF”), Executive Yuan. As of September 30, 2020, December 31, 2019 and September 30, 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 referred to as the “Group”) were approved by the board of directors and authorized for issue on November 5, 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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies:

#### Amendment to IFRS 16 “Covid-19 - Related Rent Concessions”

The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Before the application of the amendment, the Group was required to determine whether the abovementioned rent concessions are lease modifications and thus have to be accounted for as lease modifications.

The Group applied the amendment from January 1, 2020. Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Except for the policies listed below, the accounting policies adopted for these consolidated financial statements are the same as those of for the consolidated financial statements for the year ended December 31, 2019.

##### **Statement of Compliance**

These interim 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 and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosures required in a full set of annual consolidated financial statements.

##### **Basis of Consolidation**

The reporting principles of these consolidated financial statements are the same as those of the consolidated financial statements for the year ended December 31, 2019.

##### **Employee Benefits**

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

##### **Income Tax**

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period’s pre-tax income the tax rate that would be applicable to expected total annual earnings.

##### **Business Combinations**

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. Any difference between the Group’s carrying amounts of the interests and the fair value of the consideration paid or received is recognized directly in equity.

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

##### **Lease**

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease substantially the same as, or less than, the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to rent concessions for the abovementioned lease contracts, and therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occurs, and makes a corresponding adjustment to the lease liability.

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

### Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they are received.

The benefit of a government loan received at a below-market rate of interest is treated as a government grant measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

## 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 in the annual consolidated financial statements for the year ended December 31, 2019.

## 6. CASH AND CASH EQUIVALENTS

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Cash on hand and revolving fund	\$ 102,243	\$ 483,951	\$ 152,002
Checking accounts and demand deposits	12,480,737	7,206,938	10,061,172
Cash equivalents			
Time deposits with original maturities of less than three months	7,147,612	16,565,821	15,998,451
Repurchase agreements collateralized by bonds	<u>6,908,258</u>	<u>4,202,818</u>	<u>2,619,440</u>
	<u>\$ 26,638,850</u>	<u>\$ 28,459,528</u>	<u>\$ 28,831,065</u>

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Bank balance	0%-1.90%	0%-1.90%	0%-1.90%
Time deposits with original maturities of less than three months	0.28%-2.20%	0.59%-3.55%	0.59%-3.50%
Repurchase agreements collateralized by bonds	0.28%-0.65%	0.47%-0.70%	0.51%-2.80%

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

<b>Maturity Date</b>	<b>Subject</b>	<b>Carrying Value</b>	
September 30, 2020	2020.10.8-2020.12.16	Financial assets for hedging - current	\$ 9,505,814
<u>Impact on comprehensive income (loss)</u>			
			<b>Recognized in Other Comprehensive Income (Loss)</b>
For the nine months ended September 30, 2020			\$ (161,211)
For the three months ended September 30, 2020			(161,211)

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<u>Financial assets - current</u>			
Financial assets mandatorily classified as at FVTPL			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	\$ -	\$ 434	\$ 16,864
Non-derivative financial assets			
Beneficial certificates	<u>491,271</u>	<u>511,758</u>	<u>357,259</u>
	<u>\$ 491,271</u>	<u>\$ 512,192</u>	<u>\$ 374,123</u>
<u>Financial liabilities - current</u>			
Financial liabilities held for trading			
Derivative financial instruments (not under hedge accounting)			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 11,749</u>	<u>\$ 2,115</u>

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

	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount (In Thousands)</b>
<u>December 31, 2019</u>			
Buy forward contracts	NTD/USD	2020.01.15-2020.07.31	NTD570,571/USD19,000
<u>September 30, 2019</u>			
Buy forward contracts	NTD/USD	2019.10.1-2020.7.31	NTD1,009,317/USD32,500

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

### Investments in Equity Instruments

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Non-current</u>			
Foreign investments			
Unlisted shares	\$ 100,161	\$ 182,356	\$ 104,952
Domestic investments			
Unlisted shares	<u>22,351</u>	<u>26,865</u>	<u>21,117</u>
	<u>\$ 122,512</u>	<u>\$ 209,221</u>	<u>\$ 126,069</u>

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

## 9. FINANCIAL ASSETS AT AMORTIZED COST

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Current</u>			
Time deposits with original maturities of more than 3 months	\$ 5,458,047	\$ 2,354,794	\$ 1,079,048
Government bonds	<u>-</u>	<u>301</u>	<u>-</u>
	<u>\$ 5,458,047</u>	<u>\$ 2,355,095</u>	<u>\$ 1,079,048</u>
<u>Non-current</u>			
Time deposits with original maturities of more than 1 year	<u>\$ 388,270</u>	<u>\$ 105,586</u>	<u>\$ -</u>

The range of interest rates for time deposits with original maturities of more than 3 months was approximately 0.40%-2.75%, 0.60%-2.75% and 0.40%-2.80% per annum as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively.



## 10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE, NET

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Notes receivable</u>	<u>\$ 14,711</u>	<u>\$ 299,245</u>	<u>\$ 480,343</u>
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount	8,615,272	8,440,254	8,987,872
Less: Allowance for impairment loss	<u>(211,714)</u>	<u>(218,665)</u>	<u>(212,990)</u>
	<u>8,403,558</u>	<u>8,221,589</u>	<u>8,774,882</u>
	<u>\$ 8,418,269</u>	<u>\$ 8,520,834</u>	<u>\$ 9,255,225</u>

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

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

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

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

September 30, 2020

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

December 31, 2019

	<b>Not Past Due</b>	<b>Up to 30 Days</b>	<b>31 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>	<b>Total</b>
Expected credit loss rate	0.12%	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>

September 30, 2019

	<b>Not Past Due</b>	<b>Up to 30 Days</b>	<b>31 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>	<b>Total</b>
Expected credit loss rate	0.02%	0.41%	1.02%	23.44%	98.95%	-
Gross carrying amount	\$ 6,980,406	\$ 1,401,461	\$ 332,956	\$ 89,657	\$ 183,392	\$ 8,987,872
Loss allowance (lifetime ECLs)	<u>(1,368)</u>	<u>(5,728)</u>	<u>(3,404)</u>	<u>(21,015)</u>	<u>(181,475)</u>	<u>(212,990)</u>
Amortized cost	<u>\$ 6,979,038</u>	<u>\$ 1,395,733</u>	<u>\$ 329,552</u>	<u>\$ 68,642</u>	<u>\$ 1,917</u>	<u>\$ 8,774,882</u>

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 218,665	\$ 227,306
Add: Net remeasurement of loss allowance	5,791	20,434
Less: Amounts written off	(12,735)	(34,734)
Foreign exchange gains and losses	(7)	1
Loss of control of subsidiaries	<u>-</u>	<u>(17)</u>
Balance at September 30	<u>\$ 211,714</u>	<u>\$ 212,990</u>

## 11. INVENTORIES, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Aircraft spare parts	\$ 7,263,449	\$ 7,578,125	\$ 7,569,585
Items for in-flight sale	624,082	571,601	570,877
Work in process - maintenance services	133,597	283,933	591,656
Others	<u>26,983</u>	<u>36,454</u>	<u>30,204</u>
	<u>\$ 8,048,111</u>	<u>\$ 8,470,113</u>	<u>\$ 8,762,322</u>

The operating costs recognized for the nine months ended September 30, 2020 and 2019 included loss on inventory write-downs of \$196,286 thousand and \$302,420 thousand, respectively. And the operating costs for the three months ended September 30, 2020 and 2019 included (reversal of loss) loss on inventory write-downs of \$(933) thousand and \$36,368 thousand, respectively.

## 12. NON-CURRENT ASSETS HELD FOR SALE

	September 30, 2020	December 31, 2019	September 30, 2019
Aircraft held for sale	<u>\$ 79,143</u>	<u>\$ -</u>	<u>\$ -</u>

To enhance its competitiveness, the Company plans to introduce new type of aircraft and retire old aircraft according to a planned schedule. The old aircraft classified as non-current assets held for sale had original carrying amounts exceeded their expected sale prices which gave rise to an impairment loss. The Company will continuously assess for any indications of impairment in subsequent periods. However, the actual amount of loss shall be subject to the actual sales price.

The Company recognized an impairment loss of \$0 for the nine months ended September 30, 2020 and 2019. Some aircraft had completed the planned disposal procedures, and the Company recognized a loss on disposal of \$10,462 thousand for the three months ended March 31, 2019.

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

## 13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)		
			September 30, 2020	December 31, 2019	September 30, 2019
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100	100
	Cal-Asia Investment	General investment	100	100	100
	Dynasty Aerotech International Corp.	Cleaning of aircraft and maintenance of machine and equipment	100	100	100
	Yestrip	Travel business	100	100	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

(Continued)

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)		
			September 30, 2020	December 31, 2019	September 30, 2019
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59	59
	Taoyuan International Airport Services	Airport services	49	49	49
	Taiwan Airport Services (Note)	Airport services	48	48	48
	Global Sky Express	Forwarding and storage of air cargo	25	25	25
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	77	77	78
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100	100
	Kaohsiung Catering Services, Ltd.	In-flight catering	54	54	54
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	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

(Concluded)

Note: Proportion of ownership is based on the Group's shareholding.

The Company has substantial control over Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express, while the rest of investees have more than 50% of their voting shares owned by the Company. The above financial information for the nine months ended September 30, 2020 and 2019 of these subsidiaries was not reviewed by independent auditors, except for Mandarin Airlines and Tigerair Taiwan Co., Ltd.

In order to prepare for the listing of Tigerair Taiwan Co., Ltd. and to comply with the requirements relating to the review process of public listing criteria, 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 those shares waived by the shareholders or the undersubscribed portion, the chairman was authorized to designate a specific person to subscribe for the shares. The subscription price was set at \$41 per share. In October and December 2019, the issued shares were fully paid-up and were completely delivered and transferred. A total of 45,661,000 shares had been disposed of in which the proportion of ownership decreased to 77%. The proceeds from disposal amounted to \$1,866,474 thousand. Since the Company did not lose control of the subsidiary, the related gain on disposal amounted to \$1,254,633 thousand was recognized in the capital surplus account.

The board of directors of Tigerair Taiwan Co., Ltd. approved the plan to issue ordinary shares for cash on August 10, 2020. The Company plans to issue 80,000 thousand shares at \$25 per share and the total amount of the transaction is \$2,000,000 thousand. The contribution to employee stock options from cash capital increase recognized as compensation cost amounted to \$224 thousand, of which \$172 thousand was recognized as capital surplus and \$52 thousand was attributed to non-controlling interests.

The board of directors of Tigerair Taiwan Co., Ltd. approved the abovementioned issuance of listed ordinary shares for cash on August 6, 2020. The total amount of the transaction is capped at \$2,000,000 thousand.

#### 14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2020	December 31, 2019	September 30, 2019
Investments in associates	\$ 1,137,076	\$ 1,208,495	\$ 1,261,309
Investments in jointly controlled entities	<u>872,242</u>	<u>1,015,298</u>	<u>924,831</u>
	<u>\$ 2,009,318</u>	<u>\$ 2,223,793</u>	<u>\$ 2,186,140</u>

a. Investments in associates

The investments in associates were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Unlisted companies</u>			
China Aircraft Services	\$ 365,387	\$ 461,263	\$ 511,627
Dynasty Holidays	7,725	10,004	10,685
Airport Air Cargo Terminal (Xiamen)	461,308	446,161	445,444
Airport Air Cargo Service (Xiamen)	259,765	248,350	245,663
Eastern United International Logistics (Holdings) Ltd.	<u>42,891</u>	<u>42,717</u>	<u>47,890</u>
	<u>\$ 1,137,076</u>	<u>\$ 1,208,495</u>	<u>\$ 1,261,309</u>

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

Name of Associate	<u>Proportion of Ownership and Voting Rights</u>		
	September 30, 2020	December 31, 2019	September 30, 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 recognized investment income of associates accounted for using the equity method is as follows:

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
China Aircraft Services	\$ (12,550)	\$ 3,350	\$ (73,782)	\$ 10,259
Dynasty Holidays	(682)	(307)	(2,326)	297
Airport Air Cargo Terminal (Xiamen)	5,347	4,623	19,247	15,131
Airport Air Cargo Service (Xiamen)	4,637	5,925	13,751	19,323
Eastern United International Logistics (Holdings) Ltd.	<u>1,838</u>	<u>1,756</u>	<u>3,288</u>	<u>5,090</u>
	<u>\$ (1,410)</u>	<u>\$ 15,347</u>	<u>\$ (39,822)</u>	<u>\$ 50,100</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 be no significant adjustments to the related information presented in these consolidated financial statements had these investee's financial statements been independently reviewed.

The board of directors of the Company decided to sell a portion of the equity of its subsidiary, Dynasty Holidays, to H.I.S. Taiwan Co., Ltd. on January 21, 2019 and completed the transaction on January 31, 2019. After the disposal of the equity, the Group's shareholding 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 were consolidated. For information on the disposal of the subsidiary, refer to Note 30.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
China Pacific Catering Services	\$ 680,527	\$ 801,071	\$ 748,584
China Pacific Laundry Services	146,027	168,547	166,019
NORDAM Asia Ltd.	37,820	37,813	2,358
Delica International Co., Ltd.	<u>7,868</u>	<u>7,867</u>	<u>7,870</u>
	<u>\$ 872,242</u>	<u>\$ 1,015,298</u>	<u>\$ 924,831</u>

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

	<b>Proportion of Ownership and Voting Rights</b>		
	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
China Pacific Catering Services	51%	51%	51%
China Pacific Laundry Services	55%	55%	55%
NORDAM Asia Ltd.	49%	49%	49%
Delica International Co., Ltd.	51%	51%	51%

The Group entered into a joint venture agreement with Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the right to veto major proposals 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, with a plan 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 settle the disputes with its business partners, which would not have an impact on its operations. As a result, NORDAM Asia suspended its operations 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 with a Japanese brand company to invest in Delica International Co, Ltd., with the Japanese brand company having the right to make decisions on operations, and therefore, the Group does not have control.

The recognized investment income of jointly controlled entities accounted for using the equity method are as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
China Pacific Catering Services	\$ (48,653)	\$ 56,609	\$ (120,543)	\$ 172,579
China Pacific Laundry Services	(6,949)	5,158	(15,877)	12,234
NORDAM Asia Ltd.	(1)	-	7	-
Delica International Co., Ltd.	-	-	-	-
	<u>\$ (55,603)</u>	<u>\$ 61,767</u>	<u>\$ (136,413)</u>	<u>\$ 184,813</u>

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

For information on the major businesses and products and the locations of registration for the major business offices of the above entities, refer to Tables 6 and 7 (names, locations, and related information of investees on which the Company exercises significant influence and investment in mainland China) following the notes to the consolidated financial statements.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	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	-	166,759	3,291,168	-	617,433	4,075,360
Disposals	-	(896)	(20,386,082)	(668,721)	(260,493)	(21,316,192)
Reclassification	-	1,903,479	28,797,237	(25,131,813)	(1,592,848)	3,976,055
Net exchange differences	5,067	8,987	-	-	49,188	63,242
Loss of control of subsidiaries	-	-	-	(4,474)	(2,158)	(6,632)
Balance at September 30, 2019, net	<u>\$ 1,020,631</u>	<u>\$ 16,071,914</u>	<u>\$ 271,397,453</u>	<u>\$ -</u>	<u>\$ 16,728,902</u>	<u>\$ 305,218,900</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	-	(343,162)	(14,082,491)	(671,116)	(701,853)	(15,798,622)
Disposals	-	896	14,639,276	638,039	252,190	15,530,401
Reclassification	-	-	(14,621,264)	14,665,787	(26,300)	18,223
Net exchange differences	-	(4,459)	-	-	(4,909)	(9,368)
Loss of control of subsidiaries	-	-	-	2,112	1,727	3,839
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ (6,921,598)</u>	<u>\$ (137,572,136)</u>	<u>\$ -</u>	<u>\$ (11,081,142)</u>	<u>\$ (155,574,876)</u>
Balance at September 30, 2019, net	<u>\$ 1,020,631</u>	<u>\$ 9,150,316</u>	<u>\$ 133,825,317</u>	<u>\$ -</u>	<u>\$ 5,647,760</u>	<u>\$ 149,644,024</u>

(Continued)

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

(Concluded)

The reclassification mostly resulted from the transfer of prepayments for equipment and leased aircraft buybacks.

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

<b>Buildings</b>	
Main buildings	45-55 years
Others	10-25 years
<b>Machinery equipment</b>	
Electro-mechanical equipment	25 years
Others	3-13 years
<b>Office equipment</b>	3-15 years
<b>Leasehold improvements</b>	
Building improvements	5 years
Others	3-5 years
<b>Assets leased to others</b>	3-5 years
<b>Flight equipment and equipment under finance leases</b>	
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 34 for the carrying amounts of property, plant and equipment pledged by the Group.



Due to 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.

## 16. INVESTMENT PROPERTIES

	September 30, 2020	December 31, 2019	September 30, 2019
Carrying amount			
Investment properties	<u>\$ 2,074,864</u>	<u>\$ 2,075,068</u>	<u>\$ 2,075,135</u>

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

The fair values of the investment properties held by the Group were \$2,488,931 thousand, \$2,506,230 thousand and \$2,506,230 thousand as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively. The fair value valuations were performed by independent qualified professional valuers and management's assessment based on similar market transactions.

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

## 17. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
Balance at January 1, 2019	\$ 2,237,382	\$ 186,197	\$ (1,212,783)	\$ 1,210,796
Additions	152,548	-	-	152,548
Amortization expenses	-	-	(149,150)	(149,150)
Disposal of subsidiaries	<u>(3,858)</u>	<u>-</u>	<u>1,357</u>	<u>(2,501)</u>
Balance at September 30, 2019	<u>\$ 2,386,072</u>	<u>\$ 186,197</u>	<u>\$ (1,360,576)</u>	<u>\$ 1,211,693</u>
Balance at January 1, 2020	\$ 2,406,163	\$ 186,197	\$ (1,409,668)	\$ 1,182,692
Additions	57,717	-	-	57,717
Reclassification	549	-	-	549
Amortization expenses	-	-	(152,758)	(152,758)
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>(6)</u>
Balance at September 30, 2020	<u>\$ 2,464,429</u>	<u>\$ 186,197</u>	<u>\$ (1,562,432)</u>	<u>\$ 1,088,194</u>

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

## 18. OTHER ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Current</u>			
Temporary payments	\$ 278,196	\$ 296,759	\$ 589,714
Prepayments	1,246,722	1,690,368	573,104
Restricted assets	11,710	14,618	17,418
Others	<u>327,462</u>	<u>653,966</u>	<u>558,248</u>
	<u>\$ 1,864,090</u>	<u>\$ 2,655,711</u>	<u>\$ 1,738,484</u>
<u>Non-current</u>			
Prepayments for aircraft	\$ 9,845,883	\$ 8,863,861	\$ 7,968,038
Prepayments - long-term	2,501,818	2,819,575	2,868,813
Refundable deposits	1,166,081	1,261,611	1,257,502
Restricted assets	130,540	64,213	99,224
Other financial assets	18,292	19,103	6,956
Others	<u>24,331</u>	<u>142,700</u>	<u>145,958</u>
	<u>\$ 13,686,945</u>	<u>\$ 13,171,063</u>	<u>\$ 12,346,491</u>

The prepayments for aircraft are comprised of prepaid deposits and capitalized interest from the purchase of ATR72-600, A321neo, A320neo and 777F aircraft. For details of the contract for the purchase of the aircraft, refer to Note 35.

## 19. BORROWINGS

### a. Short-term loans

	September 30, 2020	December 31, 2019	September 30, 2019
Bank loans - unsecured	<u>\$ 1,932,000</u>	<u>\$ 380,000</u>	<u>\$ -</u>
Interest rates	0.92%-1.28%	0.95%-1.07%	-

### b. Short-term bills payable

	September 30, 2020	December 31, 2019	September 30, 2019
Commercial paper	\$ 8,500,000	\$ -	\$ 10,000
Less: Unamortized discount on bills payable	<u>31,722</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,468,278</u>	<u>\$ -</u>	<u>\$ 10,000</u>
Annual discount rate	0.99%-1.23%	-	0.53%

c. Long-term borrowings

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Unsecured bank loans	\$ 14,114,500	\$ 1,929,827	\$ 1,560,500
Secured bank loans	40,862,328	34,064,099	35,267,656
Commercial papers			
Proceeds from issuance	34,200,000	31,730,000	32,561,667
Less: Unamortized discounts	<u>26,634</u>	<u>60,143</u>	<u>53,959</u>
	89,150,194	67,663,783	69,335,864
Less: Current portion	<u>16,468,455</u>	<u>14,148,892</u>	<u>9,775,624</u>
	<u>\$ 72,681,739</u>	<u>\$ 53,514,891</u>	<u>\$ 59,560,240</u>
Interest rates	0.81%-1.63%	1.08%-1.79%	1.07%-1.46%

Bank loans are secured by flight equipment, buildings, and other equipment, refer to Note 34.

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Periods	2009.2.4- 2032.6.30	2008.2.26- 2030.4.25	2008.2.26- 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 papers issued. As of September 30, 2020, December 31, 2019 and September 30, 2019, such commercial papers were issued at discount rates of 1.0310%-1.1310%, 1.1300%-1.3380% and 1.1273%-1.1680%, respectively.

In accordance with the “Regulations on Relief and Revitalization Measures for Industries and Enterprises Affected by Severe Pneumonia with Novel Pathogens” endorsed by the Ministry of Transportation and Communications and the “Operational Guides on Relief Loan Guarantees for Ailing Aviation Industry Affected by Severe Pneumonia with Novel Pathogens”, the Group applied for project finance loans from financial institutions to maintain its operations; and special funds, credit guarantees along with subsidized interest rates were provided by the government. The total amount of the loans is \$24,390,000 thousand, which shall be repaid within 2 years from the date of initial drawdown. As of September 30, 2020, the Group had made a drawdown in the amount of \$13,310,000 thousand.

## 20. BONDS PAYABLE

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Unsecured corporate bonds first-time issued in 2013	\$ -	\$ 2,750,000	\$ 2,750,000
Unsecured corporate bonds first-time issued in 2016	2,350,000	4,700,000	4,700,000

(Continued)

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Unsecured corporate bonds second-time issued in 2016	\$ 2,500,000	\$ 5,000,000	\$ 5,000,000
Unsecured corporate bonds first-time issued in 2017	1,000,000	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	3,500,000
Convertible bonds issued the sixth time	<u>5,812,586</u>	<u>5,752,625</u>	<u>5,732,632</u>
	23,162,586	32,052,625	32,032,632
Less: Current portion and put option of convertible bonds	<u>11,562,586</u>	<u>10,000,000</u>	<u>9,100,000</u>
	<u>\$ 11,600,000</u>	<u>\$ 22,052,625</u>	<u>\$ 22,932,632</u> (Concluded)

Related issuance conditions are 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 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 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 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.5.19-2020.5.19	Principal repayable on due date; indicator rate; payable annually	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October 2021 and 2022; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November 2022 and 2023; indicator rate; payable annually	1.32
Seven-year private unsecured bonds - issued at par in November 2018; repayable in November 2024 and 2025; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November 2024 and 2025; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually	2019.06.21-2024.06.21	Principal repayable in June 2023 and 2024; indicator rate; payable annually	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually	2019.06.21-2026.06.21	Principal repayable in June 2025 and 2026; indicator rate; payable annually	1.32
Five-year convertible bonds - issued at discount in January 2018; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Unless bonds are converted to share capital or redeemed, principal repayable one time in January 2023; 1.3821 discount rate p.a.	-

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 \$150,000 thousand which was eliminated on the consolidated financial statements.

The Company issued the sixth unsecured convertible bonds, and the issuance conditions are 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. During the period of public offerings, the stock market and the domestic capital market were volatile due to Coronavirus Pneumonia and the changes in the share price of the Company were unfavorable to the seventh issue of the Company's unsecured convertible bonds. After comprehensive consideration, the issuance was suspended with the permission of the competent authority based on the best interest of the Company and the shareholders' equity.

The seventh issue of the Company's unsecured convertible bonds was resolved by the board of directors of the Company on August 6, 2020. The cumulative face value of the bonds shall not exceed \$6,000,000 thousand. The bonds are issued at 100%-100.5% of the face value, and the issuance period is 5 years.

## 21. LEASE AGREEMENTS

### a. Right-of-use assets

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Carrying amounts			
Land	\$ 7,950,003	\$ 8,153,382	\$ 7,877,463
Buildings	1,271,880	824,955	965,033
Flight equipment	53,643,107	62,052,701	65,300,533
Other equipment	<u>1,991</u>	<u>2,579</u>	<u>737</u>
	<u>\$ 62,866,981</u>	<u>\$ 71,033,617</u>	<u>\$ 74,143,766</u>
		<b>For the Nine Months Ended September 30</b>	
		<b>2020</b>	<b>2019</b>
Additions to right-of-use assets		<u>\$ 2,113,026</u>	<u>\$ 5,906,832</u>
Depreciation for right-of-use assets			
Land		\$ 363,649	\$ 326,452
Buildings		589,586	556,247
Flight equipment		8,335,550	7,899,367
Other equipment		<u>1,213</u>	<u>1,596</u>
		<u>\$ 9,289,998</u>	<u>\$ 8,783,662</u>

### b. Lease liabilities

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Carrying amounts			
Current	<u>\$ 2,499,005</u>	<u>\$ 2,340,873</u>	<u>\$ 2,486,709</u>
Non-current	<u>\$ 13,530,522</u>	<u>\$ 15,801,724</u>	<u>\$ 16,620,938</u>

Range of discount rate for lease liabilities (included hedging instruments for leases denominated in U.S. dollars) is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Land	0%-1.8%	1.09%-1.65%	0%-2.87%
Buildings	0%-2.98%	0%-3.56%	0%-3.56%
Flight equipment	0.68%-3.34%	2.49%-3.34%	2.00%-3.34%
Other equipment	1.058%	1.06%-1.50%	1.06%-1.73%

c. Financial liabilities under hedge accounting

The Group designated some USD-denominated lease contracts as hedging instruments to avoid exchange rate fluctuations in passenger revenue by applying cash flow hedge accounting. The lease information is as follows:

	<b>Maturity Date</b>	<b>Subject</b>	<b>Carrying Value</b>
September 30, 2020	2021.4.15-2028.5.15	Financial liabilities for hedging - current	\$ 8,390,296
		Financial liabilities for hedging - non-current	35,774,370
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
September 30, 2019	2021.4.15-2028.5.15	Financial liabilities for hedging - current	8,877,961
		Financial liabilities for hedging - non-current	46,107,551

Impact on comprehensive income

	<b>Recognized in Other Comprehensive Income</b>	<b>Reclassified to Income</b>
For the nine months ended September 30, 2020	\$ 1,262,985	\$ 219,942
For the three months ended September 30, 2020	832,399	93,174
For the nine months ended September 30, 2019	(292,684)	(41,438)
For the three months ended September 30, 2019	68,517	(22,392)

- 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 use in operations, 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 is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Refundable deposits	\$ 741,998	\$ 737,895	\$ 871,324
Credit guarantees	1,797,508	1,717,953	1,776,641

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, refer to Note 35. The lease includes an option to extend the lease, as it is not possible to extend the lease, the amount of the lease related to the period covered by the option is not included in the lease liability. If the amount of the extended lease period was included in the lease liability, the lease liability would have increased by \$882,702 thousand, \$873,293 thousand and \$870,977 thousand on September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

Taiwan Air Cargo Terminal Co. and CAA signed a BOT contract with a land lease agreement. For details, please refer to Note 35.

- e. In September 2019, the Company signed a rental letter of intent for six A321neo with Air Lease Corporation, which is expected to be delivered 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 delivered 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 delivered between 2021 and 2024.

- f. Other lease information

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Payment for short-term and low price lease	\$ 6,994	\$ 9,312	\$ 19,117	\$ 30,287
Total of lease cash outflow	<u>\$ (3,183,943)</u>	<u>\$ (4,327,016)</u>	<u>\$ (9,581,731)</u>	<u>\$ (10,302,544)</u>

The Group chooses 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.

## 22. OTHER PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Fuel costs	\$ 1,341,930	\$ 3,723,213	\$ 3,510,835
Ground service expenses	857,837	1,262,878	1,241,298
Repair expenses	491,382	1,208,875	1,370,331
Interest expenses	173,278	219,660	238,784
Short-term employee benefits	2,197,375	2,040,718	1,961,213
Terminal surcharges	451,174	1,122,532	888,168
Commission expenses	317,156	509,520	417,058
Others	<u>2,650,850</u>	<u>3,100,576</u>	<u>3,629,873</u>
	<u>\$ 8,480,982</u>	<u>\$ 13,187,972</u>	<u>\$ 13,257,560</u>



## 23. CONTRACT LIABILITIES

	September 30, 2020	December 31, 2019	September 30, 2019
Frequent flyer program	\$ 2,789,328	\$ 2,895,535	\$ 2,794,251
Advance ticket sales	<u>3,603,340</u>	<u>20,401,549</u>	<u>20,197,875</u>
	<u>\$ 6,392,668</u>	<u>\$ 23,297,084</u>	<u>\$ 22,992,126</u>
Current	\$ 4,394,318	\$ 21,060,773	\$ 20,836,928
Non-current	<u>1,998,350</u>	<u>2,236,311</u>	<u>2,155,198</u>
	<u>\$ 6,392,668</u>	<u>\$ 23,297,084</u>	<u>\$ 22,992,126</u>

## 24. PROVISIONS

	September 30, 2020	December 31, 2019	September 30, 2019
Operating leases - aircraft	<u>\$ 13,787,291</u>	<u>\$ 10,371,857</u>	<u>\$ 10,114,691</u>
Current	\$ 221,320	\$ 360,393	\$ 53,326
Non-current	<u>13,565,971</u>	<u>10,011,464</u>	<u>10,061,365</u>
	<u>\$ 13,787,291</u>	<u>\$ 10,371,857</u>	<u>\$ 10,114,691</u>

### Aircraft Lease Contracts

Balance at January 1, 2019	\$ 8,794,539
Additional provisions recognized	3,293,355
Usage	(2,051,888)
Effects of exchange rate changes	<u>78,685</u>
Balance at September 30, 2019	<u>\$ 10,114,691</u>
Balance at January 1, 2020	\$ 10,371,857
Additional provisions recognized	4,730,275
Usage	(962,948)
Effects of exchange rate changes	<u>(351,893)</u>
Balance at September 30, 2020	<u>\$ 13,787,291</u>

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

## 25. RETIREMENT BENEFIT PLANS

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Operating costs	\$ 222,901	\$ 245,848	\$ 709,999	\$ 737,617
Operating expenses	<u>91,616</u>	<u>98,085</u>	<u>304,134</u>	<u>322,926</u>
	<u>\$ 314,517</u>	<u>\$ 343,933</u>	<u>\$ 1,014,133</u>	<u>\$ 1,060,543</u>

## 26. EQUITY

### a. Share capital

#### Ordinary shares

	September 30, 2020	December 31, 2019	September 30, 2019
Number of shares authorized (in thousands)	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>
Amount of shares authorized	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>
Amount of shares issued	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>

### b. Capital surplus

	September 30, 2020	December 31, 2019	September 30, 2019
Issuance of shares in excess of par value and conversion premium	\$ 146,351	\$ 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	119,134	118,962	115,149
Bonds payable - equity component	409,978	409,978	409,978
Difference in sale price of shares of subsidiaries and book value	-	1,129,080	1,092,812
Others	<u>466,604</u>	<u>466,604</u>	<u>466,604</u>
	<u>\$ 1,187,327</u>	<u>\$ 2,488,907</u>	<u>\$ 2,448,220</u>

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

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

c. Appropriation of earnings and dividend policy

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

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

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

The 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 shareholders' meeting on June 25, 2019.

The appropriations and dividends per share are as follows:

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

The special surplus reserve amounted to \$105,843 thousand.

2) Offsetting deficit in 2019

On June 23, 2020, the board proposed to offset the accumulated deficit of 2019. The deficit included a net loss of \$1,199,978 thousand and negative adjustment to other retained earnings of \$577,427 thousand, of which the remaining amount of accumulated deficit was \$1,777,225 thousand. The deficit was offset by \$466,416 thousand of legal reserve, \$12,967 thousand of special reserve and \$1,297,843 of capital reserve.

d. Other equity items

The movements of other equity items were as follows:

	<b>Exchange Differences on Translating Foreign Operations</b>	<b>Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income</b>	<b>Gain (Loss) on Hedging Instruments</b>	<b>Total</b>
Balance on January 1, 2019	\$ (9,664)	\$ 42,619	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	(2,188)	-	-	(2,188)
Cumulative loss on changes in fair value of hedging instruments	-	-	(322,550)	(322,550)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	6,000	6,000
Unrealized loss on financial assets at fair value through other comprehensive income	-	(5,004)	-	(5,004)
Effects of change in tax rate	-	-	-	-
Effects of income tax	(428)	876	63,760	64,208
Other comprehensive income recognized in the period	(2,616)	(4,128)	(252,790)	(259,534)
Disposal of subsidiaries	8,368	105	-	8,473
Transfers of initial carrying amount of hedged items	-	-	(603)	(603)
Balance on September 30, 2019	<u>\$ (3,912)</u>	<u>\$ 38,596</u>	<u>\$ (228,125)</u>	<u>\$ (193,441)</u>
Balance on January 1, 2020	\$ (54,707)	\$ 107,262	\$ 1,143,678	\$ 1,196,233
Exchange differences on translating foreign operations	(68,728)	-	-	(68,728)
Cumulative gain on changes in fair value of hedging instruments	-	-	1,185,753	1,185,753
Cumulative loss on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(179,589)	(179,589)
Unrealized loss on financial assets at fair value through other comprehensive income	-	(85,280)	-	(85,280)
Effects of income tax	13,497	16,153	(201,234)	(171,584)
Other comprehensive income recognized in the period	(55,231)	(69,127)	804,930	680,572
Balance on September 30, 2020	<u>\$ (109,938)</u>	<u>\$ 38,135</u>	<u>\$ 1,948,608</u>	<u>\$ 1,876,805</u>

e. Non-controlling interests

	<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 3,578,345	\$ 2,965,512
Net (loss) income attributable to non-controlling interests	(353,423)	404,174
Exchange differences on translating the financial statements of foreign operations	(1,327)	(4,223)
Loss on hedging instruments	(855)	(695)
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	1,698	(490)
Effects of change in tax rate	<u>(169)</u>	<u>-</u>
	<u>(653)</u>	<u>(5,408)</u>
Disposal of subsidiaries	-	(24,957)
Disposal of equity portion of subsidiaries	-	598,111
Non-controlling interests arising from acquisition of subsidiaries	52	-
Dividends paid by subsidiaries	<u>(375,036)</u>	<u>(416,438)</u>
Ending balance	<u>\$ 2,849,285</u>	<u>\$ 3,520,994</u>

f. Treasury shares

(In Thousands of Shares)

<b>Period of Treasury Shares</b>	<b>Number of Shares, Beginning of Year</b>	<b>Reduction During the Year</b>	<b>Number of Shares, End of Year</b>
For the nine months ended September 30, 2020	<u>2,889</u>	<u>(814)</u>	<u>2,075</u>
For the nine months ended September 30, 2019	<u>2,889</u>	<u>-</u>	<u>2,889</u>

Treasury shares are the Company's shares held by its subsidiaries as of September 30, 2020 and 2019 and were as follows:

<b>Subsidiary</b>	<b>Shares (In Thousands)</b>	<b>Carrying Amount</b>	<b>Market Value</b>
<u>September 30, 2020</u>			
Mandarin Airlines	2,075	\$ <u>17,178</u>	\$ <u>17,178</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>

(Continued)

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>September 30, 2019</u>			
Mandarin Airlines	2,075	\$ 18,838	\$ 18,838
Dynasty Aerotech International Corp.	814	<u>7,393</u>	<u>7,393</u>
		<u>\$ 26,231</u>	<u>\$ 26,231</u> (Concluded)

The above acquisitions of the Company's shares by its subsidiaries in previous years were due to investment planning. The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' right on these treasury shares, except for the right to subscribe for the Company's new shares and voting rights.

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

## 27. NET INCOME

### a. Revenue

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Passenger	\$ 3,241,277	\$ 29,095,844	\$ 23,482,646	\$ 84,552,133
Cargo	21,508,899	10,681,772	56,046,312	31,799,790
Others	<u>1,861,522</u>	<u>3,227,032</u>	<u>5,955,392</u>	<u>9,950,385</u>
	<u>\$ 26,611,698</u>	<u>\$ 43,004,648</u>	<u>\$ 85,484,350</u>	<u>\$ 126,302,308</u>

Refer to Note 23 for the balance of contract liabilities related to customer contracts.

### b. Other income

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Interest income	\$ 62,650	\$ 92,808	\$ 242,761	\$ 287,238
Subsidy income	420	-	18,927	16,728
Dividend income	15,099	11,309	22,516	18,009
Others	<u>104,334</u>	<u>86,128</u>	<u>261,503</u>	<u>194,149</u>
	<u>\$ 182,503</u>	<u>\$ 190,245</u>	<u>\$ 545,707</u>	<u>\$ 516,124</u>

c. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Gain on disposal of property, plant and equipment	\$ 6,586	\$ 19,822	\$ 13,466	\$ 25,280
Loss on disposal of non-current assets held for sale	-	-	-	(10,462)
Net gain on financial assets classified as held for sale	304	20,599	2,234	43,641
Gain on disposal of investments	-	-	-	7,656
Gain or loss on foreign exchange, net	161,378	(108,675)	212,336	(255,559)
Loss on sale and leaseback	-	(103,775)	-	(103,775)
Others	<u>(78,573)</u>	<u>(82,163)</u>	<u>(208,629)</u>	<u>(197,848)</u>
	<u>\$ 89,695</u>	<u>\$ (254,192)</u>	<u>\$ 19,407</u>	<u>\$ (491,067)</u>

d. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest expense				
Bonds payable	\$ 99,399	\$ 107,329	\$ 242,546	\$ 308,320
Bank loans	193,212	167,255	715,996	594,339
Interest on lease liabilities	<u>458,065</u>	<u>528,799</u>	<u>1,409,299</u>	<u>1,620,972</u>
	<u>\$ 750,676</u>	<u>\$ 803,383</u>	<u>\$ 2,367,841</u>	<u>\$ 2,523,631</u>
Capitalization rate	0.780%- 1.548%	1.258%- 1.622%	0.709%- 1.917%	1.248%- 1.622%
Capitalization interest	<u>\$ 18,559</u>	<u>\$ 14,836</u>	<u>\$ 64,708</u>	<u>\$ 17,217</u>

e. Depreciation and amortization expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Property, plant, equipment	\$ 4,835,632	\$ 5,134,435	\$ 14,608,504	\$ 15,798,622
Right-of-use assets	3,041,624	2,957,607	9,289,998	8,783,662
Investment properties	67	70	203	210
Intangible assets	<u>47,201</u>	<u>47,617</u>	<u>152,758</u>	<u>149,150</u>
Depreciation and amortization expenses	<u>\$ 7,924,524</u>	<u>\$ 8,139,729</u>	<u>\$ 24,051,463</u>	<u>\$ 24,731,644</u>

(Continued)

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
An analysis of depreciation by function				
Operating costs	\$ 7,649,024	\$ 7,672,019	\$ 22,858,093	\$ 23,355,539
Operating expenses	<u>228,299</u>	<u>420,093</u>	<u>1,040,612</u>	<u>1,226,955</u>
	<u>\$ 7,877,323</u>	<u>\$ 8,092,112</u>	<u>\$ 23,898,705</u>	<u>\$ 24,582,494</u>
An analysis of amortization by function				
Operating costs	\$ 3,561	\$ 3,026	\$ 10,467	\$ 9,359
Operating expenses	<u>43,640</u>	<u>44,591</u>	<u>142,111</u>	<u>139,791</u>
	<u>\$ 47,201</u>	<u>\$ 47,617</u>	<u>\$ 152,758</u>	<u>\$ 149,150</u>

(Concluded)

f. Employment benefits expense

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Post-employment benefits				
Defined contribution plans	\$ 153,738	\$ 144,664	\$ 437,620	\$ 426,917
Defined benefit plans	<u>314,517</u>	<u>343,933</u>	<u>1,014,133</u>	<u>1,060,543</u>
	<u>\$ 468,255</u>	<u>\$ 488,597</u>	<u>\$ 1,451,753</u>	<u>\$ 1,487,460</u>
Other employee benefits				
Salary expenses	\$ 4,534,209	\$ 5,174,355	\$ 13,599,526	\$ 15,620,713
Personnel service expenses	<u>852,518</u>	<u>1,658,510</u>	<u>3,267,290</u>	<u>5,071,061</u>
	<u>\$ 5,386,727</u>	<u>\$ 6,832,865</u>	<u>\$ 16,866,816</u>	<u>\$ 20,691,774</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 4,823,825	\$ 6,079,205	\$ 14,827,517	\$ 18,217,140
Operating expenses	<u>1,031,157</u>	<u>1,242,257</u>	<u>3,491,052</u>	<u>3,962,094</u>
	<u>\$ 5,854,982</u>	<u>\$ 7,321,462</u>	<u>\$ 18,318,569</u>	<u>\$ 22,179,234</u>

To be in compliance with the amended Company Act, 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 September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, the Company has experienced a deficit, and therefore, no employees' compensation is estimated.

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



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

## 28. INCOME TAX

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

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
Current year	\$ 120,086	\$ 161,942	\$ 445,896	\$ 479,846
Adjustments for prior periods	199	(36)	(22,123)	496
Deferred tax				
Current year	<u>(196,052)</u>	<u>14,265</u>	<u>(608,149)</u>	<u>(5,857)</u>
Income tax expense recognized in profit or loss	<u>\$ (75,767)</u>	<u>\$ 176,171</u>	<u>\$ (184,376)</u>	<u>\$ 474,485</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	\$ 3,548	\$ 4,188	\$ 13,497	\$ (428)
Fair value changes of financial assets at FVTOCI	2,295	25	16,153	876
Fair value revaluation of hedging instruments for cash flow hedging	<u>(124,971)</u>	<u>(8,698)</u>	<u>(201,403)</u>	<u>63,760</u>
Total income tax recognized in other comprehensive income	<u>\$ (119,128)</u>	<u>\$ (4,485)</u>	<u>\$ (171,753)</u>	<u>\$ 64,208</u>

### c. Income tax assessment

Income tax returns for 2018 of the Company, Cal Hotel Co., Ltd. and Cal Park have been examined by the tax authorities. And the income tax returns for 2017 of the rest of the Company's subsidiaries have been examined by the tax authorities.

## 29. EARNINGS (LOSS) PER SHARE

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Basic earnings (loss) per share	<u>\$ (0.13)</u>	<u>\$ 0.06</u>	<u>\$ (0.37)</u>	<u>\$ (0.06)</u>
Diluted earnings (loss) per share	<u>\$ (0.13)</u>	<u>\$ 0.06</u>	<u>\$ (0.37)</u>	<u>\$ (0.06)</u>
	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Earnings (loss) used in the computation of basic earnings per share	\$ (707,937)	\$ 340,038	\$ (2,021,822)	\$ (346,425)
Effects of potentially dilutive ordinary shares:				
Interest on convertible bonds (after tax)	<u>-</u>	<u>19,924</u>	<u>-</u>	<u>-</u>
Earnings (loss) used in the computation of diluted earnings (loss) per share	<u>\$ (707,937)</u>	<u>\$ 359,962</u>	<u>\$ (2,021,822)</u>	<u>\$ (346,425)</u>
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	5,418,910	5,418,096	5,418,640	5,418,096
Effects of potentially dilutive ordinary shares:				
Convertible bonds	<u>-</u>	<u>476,190</u>	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	<u>5,418,910</u>	<u>5,894,286</u>	<u>5,418,640</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 (losses) per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings (loss) per share until the number of shares to be distributed to employees is resolved in the following year.

## 30. DISPOSAL OF SUBSIDIARIES

On January 21, 2019, the board of directors of the Company decided to sell a portion of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. with proceeds from disposal of \$34,036 thousand and a gain on disposal of \$7,656 thousand. After the disposal, the Company's proportion of ownership in Dynasty Holidays decreased from 51% to 20%, resulting in a loss of control of 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 disposal 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: Balance of cash and cash equivalents disposed of	<u>(51,449)</u>
	<u>\$ (17,413)</u>

### 31. 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 to the Group's consolidated financial statements for the year ended December 31, 2019.

### 32. FINANCIAL INSTRUMENTS

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

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

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>						
Bonds payable	\$ 23,162,586	\$ 23,145,514	\$ 32,052,625	\$ 32,062,874	\$ 32,032,632	\$ 32,025,831

Some long-term debts and lease liabilities are floating-rate financial liabilities, so their carrying amounts are their fair values. As of September 30, 2020, December 31, 2019 and September 30, 2019, the fair values of private bonds with fixed interest rates were estimated at the present value of expected cash flows discounted at rates of 0.5100%, 0.6700% and 0.6500%, respectively, prevailing in the market for private bonds (Level 2). Fair values of bonds payable were the same as identical liabilities trading on the over-the-counter exchange and were based on quoted market prices (Level 1).

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

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

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

September 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 491,271	\$ -	\$ -	\$ 491,271
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 22,351	\$ 22,351
Unlisted shares - foreign	-	-	100,161	100,161
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,512</u>	<u>\$ 122,512</u>
Derivative financial assets for hedging	<u>\$ 9,505,814</u>	<u>\$ 44</u>	<u>\$ 2</u>	<u>\$ 9,505,860</u>
Derivative financial liabilities for hedging	<u>\$ 44,164,666</u>	<u>\$ 92,968</u>	<u>\$ 33,243</u>	<u>\$ 44,290,877</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	-	434	-	434
	<u>\$ 511,758</u>	<u>\$ 434</u>	<u>\$ -</u>	<u>\$ 512,192</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 26,865	\$ 26,865
Unlisted shares - foreign	-	-	182,356	182,356
	<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>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ 9,479</u>	<u>\$ 9,626</u>
Derivative financial liabilities for hedging	<u>\$ 50,997,687</u>	<u>\$ 37,069</u>	<u>\$ 3,955</u>	<u>\$ 51,038,711</u> (Concluded)

September 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 357,259	\$ -	\$ -	\$ 357,259
Derivative instruments	-	16,864	-	16,864
	<u>\$ 357,259</u>	<u>\$ 16,864</u>	<u>\$ -</u>	<u>\$ 374,123</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Unlisted shares - domestic	\$ -	\$ -	\$ 21,117	\$ 21,117
Unlisted shares - foreign	-	-	104,952	104,952
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,069</u>	<u>\$ 126,069</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 2,115</u>	<u>\$ -</u>	<u>\$ 2,115</u>
Derivative financial assets for hedging	<u>\$ -</u>	<u>\$ 6,230</u>	<u>\$ 6,130</u>	<u>\$ 12,360</u>
Derivative financial liabilities for hedging	<u>\$ -</u>	<u>\$ 54,986,873</u>	<u>\$ 4,309</u>	<u>\$ 54,991,182</u>

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

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

<u>Financial Instrument</u>	<u>Valuation Techniques and Inputs</u>
Derivative instruments	The fair values of derivatives (except options) have been determined based on discounted cash flow analyses using interest yield curves applicable for the duration of the derivatives. The estimates and assumptions that the Group used to determine the fair values are identical to those used in the pricing of financial instruments for market participants.

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

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

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

The movements of Level 3 financial instruments were as follows:

	<b>Multiplicator</b>	<b>Liquidity Discount</b>
September 30, 2020	0.80-21.22	80%
December 31, 2019	0.75-13.23	80%
September 30, 2019	0.74-15.29	80%
	<b>Derivative Instruments</b>	<b>Equity Instruments</b>
Balance at January 1, 2020	\$ 5,524	\$ 209,221
Recognized in other comprehensive income	<u>(38,765)</u>	<u>(86,709)</u>
Balance at September 30, 2020	<u>\$ (33,241)</u>	<u>\$ 122,512</u>
Balance at January 1, 2019	\$ 4,901	\$ 132,191
Recognized in other comprehensive income	<u>(3,080)</u>	<u>(6,122)</u>
Balance at September 30, 2019	<u>\$ 1,821</u>	<u>\$ 126,069</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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 491,971	\$ 512,192	\$ 374,123
Derivative financial assets for hedging	9,505,860	9,626	12,360
Financial assets at amortized cost (Note 1)	42,853,509	41,479,556	41,927,268
Financial assets at FVTOCI	122,512	209,221	126,069
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	-	11,749	2,115
Derivative financial liabilities for hedging	44,290,877	51,038,711	54,991,182
Financial liabilities at amortized cost (Note 2)	163,590,555	134,240,993	127,666,956

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

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

d. Financial risk management objectives and policies

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

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

1) Market risk

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

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

a) Foreign currency risk

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

Sensitivity analysis

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

The 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. An increase/decrease of US\$1 against New Taiwan dollars is 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 an increase/decrease of US\$1 against the New Taiwan dollars.

When New Taiwan dollars increased by one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax loss and an increase in pre-tax other comprehensive income for the nine months ended September 30, 2020 of \$330,226 thousand and \$1,069,139 thousand, and an increase in pre-tax profit and increase in pre-tax other comprehensive income for the nine months ended September 30, 2019 of \$115,507 thousand and \$1,748,005 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 information related to equipment contracts for hedging.

#### September 30, 2020

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD212,144/ USD7,126	2020.10.7- 2021.10.6	28.88-30.28	Financial assets for hedging - current/ liabilities for hedging - current	\$ 44	\$ 4,879
Aviation fuel - forward exchange contracts	NTD/USD	NTD319,767/ USD11,000	2020.10.30- 2021.5.28	29.38-30.02	Financial assets for hedging - current/ liabilities for hedging - current	-	6,958
Aircraft prepayments - forward exchange contracts	NTD/USD	NTD3,052,326/ USD 105,000	2020.11.4- 2020.12.4	29.48-30.5	Financial assets for hedging - current/ liabilities for hedging - current	-	81,131

The above hedging instruments are continuously accounted for under hedge accounting. The book value in other equity recognized from each hedged item (aircraft rentals, aviation fuel and aircraft prepayments) amounted to \$(4,835) thousand, \$(6,958) thousand and \$(81,131) 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 hedging instruments are continuously accounted for under hedge accounting. The book value in other equity recognized from each hedged item (aircraft rentals, aviation fuel and aircraft prepayments) amounted to \$(8,453) thousand, \$(10,161) thousand and \$(18,308) thousand, respectively.

September 30, 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	NTD383,659/ USD12,354	2019.10.25- 2020.8.19	29.7-30.8	Financial assets for hedging - current/ liabilities for hedging - current	\$ 5,892	\$ 192
Aviation fuel - forward exchange contracts	NTD/USD	NTD357,143/ USD11,500	2019.11.27- 2020.8.31	30.4-31.2	Financial assets for hedging - current/ liabilities for hedging - current	338	1,169

The abovementioned hedging instruments are continuously accounted for under hedge accounting. The book value in other equity recognized from each hedged item (aircraft rentals and aviation fuel) amounted to \$5,700 thousand and \$(831) thousand, respectively.

For the nine months ended September 30, 2020

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

Note: Increase in operating costs or foreign exchange loss.

For the three months ended September 30, 2020

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

Note: Increase in operating costs or foreign exchange loss.

For the nine months ended September 30, 2019

<b>Comprehensive Income</b>	<b>Hedging Gain (Loss) Recognized in Other Comprehensive Income</b>	<b>Amount Reclassified to Profit and Loss and the Adjusted Line Item</b>	
Cash flow hedge			
Aircraft rentals	\$ (21,743)	\$ 45,414	(Note)
Aviation fuel	(831)	2,265	
Aircraft prepayments	<u>603</u>	<u>-</u>	
	<u>\$ (21,971)</u>	<u>\$ 47,679</u>	

Note: Decrease in operating costs or foreign exchange loss.

For the three months ended September 30, 2019

<b>Comprehensive Income</b>	<b>Hedging Gain (Loss) Recognized in Other Comprehensive Income</b>	<b>Amount Reclassified to Profit and Loss and the Adjusted Line Item</b>	
Cash flow hedge			
Aircraft rentals	\$ (23,830)	\$ 8,453	(Note)
Aviation fuel	(831)	2,265	
Aircraft prepayments	<u>(603)</u>	<u>-</u>	
	<u>\$ (24,058)</u>	<u>\$ 10,718</u>	

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Fair value interest rate risk			
Financial liabilities	\$ 73,848,215	\$ 91,414,806	\$ 95,678,592
Cash flow interest rate risk			
Financial liabilities	109,059,037	77,821,887	79,793,065

Sensitivity analysis

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

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

Had interest rates increased by one yard (25 basis points) and all other variables been held constant, the Group's pretax profit for the nine months ended September 30, 2019 would have decreased by \$149,612 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 changes in fuel price.

September 30, 2020

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

The above hedging instruments are continuously accounted for under hedge accounting. The book value in other equity recognized from each hedged item (fuel payments) amounted to \$(33,241) 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	US\$	NT\$5,524	2020.3.31-2020.12.31	US\$49.65-US\$80.75	Financial assets for hedging - current/ liabilities for hedging - current	\$ 9,479	\$ 3,955

The above hedging instruments are continuously accounted for under hedge accounting. The book value in other equity recognized from each hedged item (fuel payments) amounted to \$5,524 thousand.

September 30, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	US\$	NT\$1,821	2019.12.31-2020.6.30	US\$55-US\$82.5	Financial assets for hedging - current/ liabilities for hedging - current	\$ 6,130	\$ 4,309

The above hedging instruments are continuously accounted for under hedge accounting. The book value in other equity recognized from each hedged item (fuel payments) amounted to \$1,821 thousand.

For the nine months ended September 30, 2020

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

Note: Increase in operating costs.

For the three months ended September 30, 2020

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

Note: Increase in operating costs.

For the nine months ended September 30, 2019

<b>Comprehensive Income</b>	<b>Hedging Gain (Loss) Recognized in OCI</b>	<b>Amount Reclassified to P/L and the Adjusted Line Item</b>
Cash flow hedges - fuel options	\$ (3,080)	\$ (11,751) (Note)

Note: Increase in operating costs.

For the three months ended September 30, 2019

<b>Comprehensive Income</b>	<b>Hedging Gain (Loss) Recognized in Other Comprehensive Income</b>	<b>Amount Reclassified to Profit and Loss and the Adjusted Line Item</b>
Cash flow hedges - fuel options	\$ (3,958)	\$ (4,659) (Note)

Note: Increase in operating costs.

Sensitivity analysis

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

	<b>For the Nine Months Ended September 30</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Pre-tax Profit Increase (Decrease)</b>	<b>Other Compre- hensive Income Increase (Decrease)</b>	<b>Pre-tax Profit Increase (Decrease)</b>	<b>Other Compre- hensive Income Increase (Decrease)</b>
Fuel price increase 5%	\$ 622	\$ 1,624	\$ -	\$ -
Fuel price decrease 5%	(622)	(5,537)	-	-

2) Credit risk

The goal, policies and procedure of credit risk management are the same as those stated in the consolidated financial statements for the year ended December 31, 2019. Related illustration can be referred to in Note 33.

3) Liquidity risk

The goal, policies and procedures of liquidity risk management are the same as those stated in the consolidated financial statements for the year ended December 31, 2019. Related illustration can be referred to in Note 33.

Except for the following, the objectives, policies and procedures of liquidity risk management are the same as those stated in the consolidated financial statements for the year ended December 31, 2019. Related illustration can be referred in Note 33.

	<b>Unused Bank Loan Limit (Unsecured)</b>
The Group (China Airlines, Ltd., Mandarin Airlines and Tigerair Taiwan Co., Ltd.)	\$ 29,285,466

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 are based on the date the Group may be required to pay the first repayment and financial liabilities are evaluated based on undiscounted cash flows, including cash flows of interest and principal.

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

September 30, 2020

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

December 31, 2019

	<b>The Weighted Average Effective Interest Rate (%)</b>	<b>Less than 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
Finance lease liabilities	1.1613	\$ 3,357,996	\$ 10,622,204	\$ 8,949,194
Floating interest rate liabilities	1.9058	15,254,687	36,274,033	16,785,664
Hedging 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>\$ 39,497,410</u>	<u>\$ 106,496,473</u>	<u>\$ 35,491,592</u>

September 30, 2019

	<b>The Weighted Average Effective Interest Rate (%)</b>	<b>Less than 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
Finance lease liabilities	1.1513	\$ 3,496,714	\$ 11,579,171	\$ 8,426,515
Floating interest rate liabilities	1.2842	8,464,150	45,970,241	16,213,392
Hedging instruments	-	10,385,182	42,351,815	7,913,453
Bonds payable	1.1423	<u>6,857,878</u>	<u>19,201,333</u>	<u>4,551,404</u>
		<u>\$ 29,203,924</u>	<u>\$ 119,102,560</u>	<u>\$ 37,104,764</u>

### 33. RELATED-PARTY TRANSACTIONS

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

a. Related party' name and relationships

<u>Related Party Name</u>	<u>Relationship with the Company</u>
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
Dynasty Holidays	Associate (become associate in January 2019)
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment

(Continued)

Related Party Name	Relationship with the Company
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

(Concluded)

b. Operating income

Account Items	Related Party Type	For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2020	2019	2020	2019
Other income	Major shareholders of the Company	\$ <u>1</u>	\$ <u>6,605</u>	\$ <u>5,097</u>	\$ <u>17,573</u>
	Associate	\$ <u>10</u>	\$ <u>1,198</u>	\$ <u>122</u>	\$ <u>1,237</u>
	Joint venture investment	\$ <u>4,415</u>	\$ <u>10,636</u>	\$ <u>17,604</u>	\$ <u>31,882</u>

c. Purchases of goods

Related Party Type	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Major shareholders of the Company	\$ <u>-</u>	\$ <u>14,823</u>	\$ <u>11,418</u>	\$ <u>38,605</u>
Associate	\$ <u>105,438</u>	\$ <u>111,772</u>	\$ <u>328,418</u>	\$ <u>304,617</u>
Joint venture investment	\$ <u>67,760</u>	\$ <u>492,895</u>	\$ <u>443,479</u>	\$ <u>1,433,102</u>

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

Related Party Type	September 30, 2020	December 31, 2019	September 30, 2019
Major shareholders of the Company	\$ -	\$ 2,588	\$ 2,797
Joint venture investments	<u>1,537</u>	<u>7,760</u>	<u>7,772</u>
	<u>\$ 1,537</u>	<u>\$ 10,348</u>	<u>\$ 10,569</u>

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



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

Related Party Type	September 30, 2020	December 31, 2019	September 30, 2019
Major shareholders of the Company	\$ -	\$ 5,982	\$ 5,994
Associates	41,630	51,333	46,133
Joint venture investments	<u>68,323</u>	<u>484,700</u>	<u>498,249</u>
	<u>\$ 109,953</u>	<u>\$ 542,015</u>	<u>\$ 550,376</u>

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

f. Lease arrangements (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, and the Company paid the rental based on usage hours. For the nine months ended September 30, 2020 and 2019, the rental paid amounted to \$11,418 thousand and \$38,605 thousand, respectively; for the three months ended September 30, 2020 and 2019, the rental paid by the Company amounted to \$0 and \$14,823 thousand, respectively.

g. Endorsements and assurances

	September 30, 2020		December 31, 2019		September 30, 2019	
	Authorized Amount	Amount Used	Authorized Amount	Amount Used	Authorized Amount	Amount Used
<u>The Company</u>						
Cal Park	\$ 3,850,000	\$ 1,914,690	\$ 3,850,000	\$ 2,129,400	\$ 3,850,000	\$ 2,151,550
Taiwan Air Cargo Terminal	-	-	1,080,000	-	1,080,000	-
Tigerair Taiwan Co., Ltd.	2,718,372	464,095	3,012,668	685,444	1,089,966	422,390
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	2,000,000	1,301,327	2,000,000	1,279,827	2,000,000	1,095,827

h. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 7,926	\$ 7,721	\$ 23,977	\$ 30,358
Post-employment benefits	<u>657</u>	<u>533</u>	<u>1,822</u>	<u>1,807</u>
	<u>\$ 8,583</u>	<u>\$ 8,254</u>	<u>\$ 25,799</u>	<u>\$ 32,165</u>

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

### 34. PLEDGED ASSETS

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

	September 30, 2020	December 31, 2019	September 30, 2019
Property, plant and equipment	\$ 35,211,100	\$ 31,260,801	\$ 33,391,634
Right-of-use asset	62,866,981	71,033,617	74,143,766
Restricted assets	<u>193,471</u>	<u>130,052</u>	<u>116,642</u>
	<u>\$ 98,271,552</u>	<u>\$ 102,424,470</u>	<u>\$ 107,652,042</u>

### 35. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2020, 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 with AVIONS DE TRANSPORT REGIONAL G.I.E to purchase six ATR72-600 aircraft, and the total list price of the six aircraft was US\$120,000 thousand. As of September 30, 2020, four of the aircraft had been handed over to the Company, and the amount paid was 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. 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 \$6,840,000 thousand based on the construction contract.

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

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	\$ 552,285
Bin Li Construction Co., Ltd., Taiwan	Cargo Terminal Expansion and Enhancement Construction	275,000

As of September 30, 2020, the accumulated consulting service expense and construction equipment amounted to \$481,776 thousand and \$5,301,244 thousand, respectively, of which upon completion of the projects, the amounts of \$468,755 thousand and \$5,270,661 thousand 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 returned to the government without any compensation when the chartered operating license expires.

TACT should pay royalties to Taoyuan Airport Corporation and the CAA during the chartered operation period. The calculation is based on annual sales (including operating and non-operating revenue but excluding the rental revenue from specific districts), and both 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 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 laws and regulations for providing essential services 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, the rentals are 60% of the amount based on the National Building Land Rental Standard plus land value tax, value-added tax and the necessary maintenance fees.

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

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

- 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 periods of the eleven aircraft are from 2024 to 2026. As of September 30, 2020, the list price of the fourteen aircraft had been paid in the amount of US\$32,578 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand.
- e. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three 777F aircraft and exercised the option to purchase three 777F aircraft. The total list price of the six aircraft is US\$2,320,315 thousand, and the expected delivery periods are from 2020 to 2023. As of September 30, 2020, the list price had 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 periods of the seven aircraft are from 2025 to 2027. As of September 30, 2020, the list price of the seven aircraft had been paid in the amount of US\$18,549 thousand (recognized as prepayments for aircraft). In addition, in December 2019, Tigerair Taiwan Co., Ltd. signed a contract with International Aero Engines Company to purchase two backup engines of A320neo aircraft. The total list price of the two engines is US\$27,345 thousand. As of September 30, 2020, the list price had been paid in the amount of US\$2,988 thousand (recognized as prepayments for aircraft).

### 36. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

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

The Group has obtained relief loan from the government. Refer to Note 19 for details on the amount of loan and its allocation.

### 37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

(In Thousands of Foreign Currencies)

September 30, 2020

<u>Financial assets</u>	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
Monetary items			
USD	\$ 702,459	29.0698	\$ 20,420,314
EUR	17,096	34.1297	583,488
HKD	307,321	3.7481	1,151,878
JPY	3,950,045	0.2750	1,086,281
RMB	460,200	4.2644	1,962,475

(Continued)

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 2,224,950	29.0698	\$ 64,678,772
EUR	8,058	34.1297	275,018
HKD	84,584	3.7481	317,033
JPY	2,803,819	0.2750	771,064
RMB	135,520	4.2644	577,912
			(Concluded)

December 31, 2019

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<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
RMB	425,343	4.3048	1,831,012

Financial liabilities

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
RMB	153,196	4.3048	659,478

September 30, 2019

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 598,610	31.0559	\$ 18,590,366
EUR	19,054	33.8983	645,899
HKD	199,139	3.9573	788,052
JPY	3,855,949	0.2875	1,108,574
RMB	402,001	4.3592	1,752,405

Financial liabilities

Monetary items			
USD	2,518,476	31.0559	78,213,548
EUR	7,135	33.8983	241,861
HKD	86,773	3.9573	343,388
JPY	6,399,067	0.2875	1,839,703
RMB	172,552	4.3592	752,188

For the three months ended September 30, 2020 and 2019, the amounts of net foreign exchange profit (loss) were \$161,378 thousand and \$(108,675) thousand, respectively. For the nine months ended September 30, 2020 and 2019, the amounts of net foreign exchange profit (loss) were \$212,336 thousand and \$(255,559) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the entities in the Group.

### 38. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
  - 1) Financing provided: Table 1 (attached)
  - 2) Endorsements/guarantees provided: Table 2 (attached)
  - 3) Marketable securities held: Table 3 (attached)
  - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
  - 5) Acquisitions of individual real estate at costs or price of at least NT\$300 million or 20% of the paid-in capital: None
  - 6) Disposals of individual real estate at cost or prices of at least NT\$300 million or 20% of the paid-in capital: None
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
  - 9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached)
  - 10) Trading in derivative instruments (Notes 7 and 33)
- b. Investments in mainland China: Table 7 (attached)
- c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (attached)
- d. Information of major shareholders: Table 9 (attached)

### 39. SEGMENT INFORMATION

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

For the nine months ended September 30, 2020 and 2019, financial information of segments is listed as follows:

	<b>For the Nine Months Ended September 30, 2020</b>			
	<b>Air Transportation</b>	<b>Others</b>	<b>Adjustments and Write-offs</b>	<b>Total</b>
Operating revenue	<u>\$ 82,786,966</u>	<u>\$ 5,377,233</u>	<u>\$ (2,679,849)</u>	<u>\$ 85,484,350</u>
Operation profit and loss	<u>\$ (18,730)</u>	<u>\$ (498,247)</u>	<u>\$ (63,682)</u>	\$ (580,659)
Interest revenue				242,761
Investment income accounted for using the equity method				(176,235)
Revenue				492,920
Financial costs				(2,367,841)
Expenses				<u>(170,567)</u>
Gain before income tax				<u>\$ (2,559,621)</u>
Identifiable assets	<u>\$ 190,748,755</u>	<u>\$ 15,288,594</u>	<u>\$ (6,198,148)</u>	\$ 199,839,201
Investments accounted for using the equity method				2,009,318
Assets				<u>82,176,470</u>
Total assets				<u>\$ 284,024,989</u>

	<b>For the Nine Months Ended September 30, 2019</b>			
	<b>Air Transportation</b>	<b>Others</b>	<b>Adjustments and Write-offs</b>	<b>Total</b>
Operating revenue	<u>\$ 123,620,400</u>	<u>\$ 8,238,960</u>	<u>\$ (5,557,052)</u>	<u>\$ 126,302,308</u>
Operation profit and loss	<u>\$ 1,734,433</u>	<u>\$ 1,126,506</u>	<u>\$ (65,044)</u>	\$ 2,795,895
Interest revenue				287,238
Investment income accounted for using the equity method				234,913
Revenue				231,939
Financial costs				(2,523,631)
Expenses				<u>(494,120)</u>
Gain before income tax				<u>\$ 532,234</u>
Identifiable assets	<u>\$ 216,527,282</u>	<u>\$ 15,730,110</u>	<u>\$ (6,394,470)</u>	\$ 225,862,922
Investments accounted for using the equity method				2,186,140
Assets				<u>70,385,257</u>
Total assets				<u>\$ 298,434,319</u>

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
1	Cal-Dynasty International	Dynasty Hotel of Hawaii, Inc.	Notes receivable	Y	\$ 103,244	\$ 101,744	\$ 29,070	2.25	Operating cycle capital expenditure	\$ -		\$ -		\$ -	\$ 146,432	\$ 292,865	

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

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



## CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counterparty		Limits on Each Counter party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park Tigerair Taiwan Ltd.	100% subsidiary 77.17% subsidiary by direct and indirect holdings	\$ 11,043,909 11,043,909	\$ 3,850,000 3,038,197	\$ 3,850,000 2,718,372	\$ 1,914,690 464,095	\$ - -	6.97 4.92	\$ 27,609,774 27,609,774	Yes Yes	No No	No No
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,043,909	2,000,000	2,000,000	1,301,327	-	3.62	27,609,774	Yes	No	No

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

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

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

SEPTEMBER 30, 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	September 30, 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. - common shares	-	Financial assets at fair value through other comprehensive income - non-current	1,359,368	\$ 73,046	13.59	\$ 80,351	Note 1
	Everest Investment Holdings Ltd. - preferred shares	-	Financial assets at fair value through other comprehensive income - non-current	135,937	7,305	-	-	-
	Chung Hua Express Co.	-	Financial assets at fair value through other comprehensive income - non-current	1,100,000	22,351	11.00	22,351	-
	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	17,178	-	17,178	-
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	-	19,810	5.45	19,810	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficiary certificates</u> Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	7,528,078.80	78,430	-	78,430	-
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	308,093.69	55,366	-	55,366	-
	Capital Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,464,064.80	88,804	-	88,804	-
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	7,951,265.07	92,562	-	92,562	-
Taiwan Airport Services	<u>Shares</u> TransAsia Airways	-	Financial assets at fair value through profit or loss - current	2,277,786	-	0.40	-	-
Dynasty Aerotech International Corp.	<u>Beneficiary certificates</u> Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,765	-	4,765	-
Kaohsiung Catering Services	<u>Beneficiary certificates</u> Prudential Financial Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,407,832	85,887	-	85,887	-
	Prudential Financial Return Fund	-	Financial assets at fair value through profit or loss - current	4,493,628	70,422	-	70,422	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,106,807	15,035	-	15,035	-

(Continued)

Note 1: The subsidiary's net equity value was \$80,351 thousand for the nine months ended September 30, 2020, which included ordinary shares and preference shares.

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

Note 3: The table only listed financial assets that are in accordance with IFRS 9.

(Concluded)

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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.	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 450,877	0.63	30 days	\$ -	-	\$ (53,602)	(2.59)	-
	Cal Park	Subsidiary	Purchase	159,974	0.22	2 months	-	-	-	-	-
	China Pacific Catering Services	Equity-method investee	Purchase	407,430	0.57	90 days	-	-	(64,018)	(3.09)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	752,110	1.05	40 days	-	-	(194,275)	(9.39)	-
	Dynasty Aerotech International Corp.	Subsidiary	Purchase	262,714	0.37	2 months	-	-	(56,161)	(2.71)	-
	Tigerair Taiwan Co., Ltd.	Subsidiary	Sale	(197,809)	(0.25)	1 months	-	-	10,026	0.11	-
	Mandarin Airlines	Subsidiary	Sale	(120,675)	(0.15)	2 months	-	-	-	-	-
	Eastern United International Logistics (Holdings) Ltd.	Equity-method investee	Purchase	275,674	0.39	2 months	-	-	(30,316)	(1.46)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	113,570	4.04	1 months	-	-	(37,628)	(6.95)	-

**CHINA AIRLINES, LTD. AND SUBSIDIARIES**

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

**SEPTEMBER 30, 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		
Taoyuan International Airport Service	China Airlines	Parent company	\$ 194,275	3.70	\$ -	-	\$ 118,404	\$ -

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(In Thousands of New Taiwan Dollars/U.S. Dollars/Hong Kong Dollars/Japanese Yen in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2020			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				September 30, 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	\$ 1,590,148	\$ 5,371	\$ 38,886	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,230,356	(281,357)	(264,447)	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	1,497,049	201,247	108,704	-
	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	1,214,371	(22,959)	(21,870)	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	680,527	(236,359)	(120,543)	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	606,191	(267,457)	(131,054)	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	455,610	32,357	32,357	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	230,414	(50,436)	(47,375)	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	365,387	(368,910)	(73,782)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	168,929	(131,493)	(62,262)	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	522,593	21,832	1,709	Note 5
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	397,592	(81,574)	(81,668)	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	146,027	(28,868)	(15,877)	-
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	117,996	22,848	22,829	Note 4
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	10,270	(15,067)	(14,999)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	7,725	(11,630)	(2,326)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,004	5,239	1,310	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,272,063	1,272,063	138,906,275	69.45	1,010,080	(951,144)	(660,601)	Note 4
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	745,091	(176,918)	(176,898)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Composite repair and manufacturing business	37,975	2,450	3,797,500	49.00	37,820	15	7	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	154,330	15,433,000	7.72	112,222	(951,144)	(73,395)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	3,842	(131,493)	(1,416)	-
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	42,891	9,394	3,288	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	360,324	15,985	15,985	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 share method in recognizing investment income or loss.

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

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

Note 4: The difference is due to lease arrangement between consolidated entities.

Note 5: The difference is due to acquisition.

## CHINA AIRLINES, LTD. AND SUBSIDIARIES

## INVESTMENTS IN MAINLAND CHINA

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

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

## China Airlines

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of September 30, 2020	Accumulated Inward Remittance of Earnings as of September 30, 2020
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,085,203 (RMB 254,480)	Indirect (Note 1)	\$ 121,685 (US\$ 4,186)	\$ -	\$ -	\$ 121,685 (US\$ 4,186)	\$ 71,197 (RMB 16,696)	14	\$ 9,279 (RMB 2,337)	\$ 231,585 (RMB 54,307)	\$ 102,807 (US\$ 3,537) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	59,701 (RMB 14,000)	Indirect (Note 1)	56,612 (US\$ 1,947)	-	-	56,612 (US\$ 1,947)	50,359 (RMB 11,809)	14	6,701 (RMB 1,653)	129,955 (RMB 30,475)	45,364 (US\$ 1,561) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,415,407 (US\$ 83,090)	Indirect (Note 1)	62,535 (US\$ 2,151)	-	-	62,535 (US\$ 2,151)	-	2.589	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	339,041 (US\$ 11,663)	Indirect (Note 1)	18,488 (US\$ 636)	-	-	18,488 (US\$ 636)	-	5.45	-	30,977 (RMB 7,264)	10,364 (US\$ 357)

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$259,320 (US\$8,920)	\$630,982 (Note 3)	\$34,841,300 (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 September 30, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of September 30, 2020	Accumulated Repatriation of Investment Income as of September 30, 2020
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,085,203 (RMB 254,480)	Indirect (Note 5)	\$ 116,813 (US\$ 4,018)	\$ -	\$ -	\$ 116,813 (US\$ 4,018)	\$ 71,197 (RMB 16,696)	14	\$ 9,968 (RMB 2,337)	\$ 229,723 (RMB 53,870)	\$ 132,010 (US\$ 4,541)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	59,701 (RMB 14,000)	Indirect (Note 5)	56,010 (US\$ 1,927)	-	-	56,010 (US\$ 1,927)	50,359 (RMB 11,809)	14	7,050 (RMB 1,653)	129,810 (RMB 30,440)	60,808 (US\$ 2,092)

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$172,823 (US\$5,945)	\$172,823 (US\$5,945)	\$214,060 (Note 6)

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

Note 2: As of September 30, 2020, the inward remittance of earnings amounted to US\$3,536,561 and US\$1,560,538.

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

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

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

Note 6: The amounts of profit (loss) in RMB and U.S. dollars of assets are converted at the average exchange rates for the period.

(Concluded)



## CHINA AIRLINES, LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(In Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount (Note 2)	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Mandarin Airlines	a	Other operating income	\$ 108,868	The same as ordinary transactions	0.16
		Tigerair Taiwan Ltd.	a	Other operating income	197,809	The same as ordinary transactions	0.24
		Taoyuan International Airport Service	a	Terminal and landing fees	752,110	The same as ordinary transactions	0.88
		Dynasty Aerotech International Corp.	a	Terminal and landing fees	262,714	The same as ordinary transactions	0.31
		Taiwan Air Cargo Terminal	a	Other operating cost	450,877	The same as ordinary transactions	0.53
		Cal Park	a	Other operating cost	159,974	The same as ordinary transactions	0.19
		Taoyuan International Airport Service	a	Accounts payable - related parties	194,275	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Bonds payable - non-current	125,000	The same as ordinary transactions	0.04
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	450,877	The same as ordinary transactions	0.53
2	Mandarin Airlines	Taiwan Airport Services	c	Terminal and landing fees	113,570	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Operating expense	108,868	The same as ordinary transactions	0.16
		China Airlines, Ltd.	b	Financial assets at amortized cost	125,000	The same as ordinary transactions	0.04
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	752,110	The same as ordinary transactions	0.88
		China Airlines, Ltd.	b	Accounts receivable - related parties	194,275	The same as ordinary transactions	0.06
4	Taiwan Airport Services	Mandarin Airlines	c	Operating revenue	113,570	The same as ordinary transactions	0.13
5	Dynasty Aerotech International Corp.	China Airlines, Ltd.	b	Operating revenue	262,714	The same as ordinary transactions	0.31
6	Cal Park	China Airlines, Ltd.	b	Operating revenue	159,974	The same as ordinary transactions	0.19
7	Tigerair Taiwan Ltd.	China Airlines, Ltd.	b	Operating expense	197,809	The same as ordinary transactions	0.24

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

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

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

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

(Concluded)

**TABLE 9****CHINA AIRLINES, LTD. AND SUBSIDIARIES****INFORMATION OF MAJOR STOCKHOLDERS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

Name of Major Shareholder	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 information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

Note 2: If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustee who opened the trust account. For shareholders who declare insider shareholdings with ownership greater than 10% in accordance with the Security and Exchange Act, the shareholdings include shares held by shareholders and those delivered to the trust over which shareholders have rights to determine the use of trust property. For information relating to insider shareholding declaration, please refer to Market Observation Post System.